

Chapter 5

Cost Principles and Allowable Costs

INTRODUCTION

This chapter provides guidance to WtW formula and competitive grantees on Federal cost principles and allowable costs that can be charged to grants. It contains the following sections:

- Federal Cost Principles
- Cost Principles: Allowable vs. Unallowable
- Selected Items of Cost
- Attachment 1 - Summary of Cost Items from OMB circulars.

The WtW authorizing legislation (Section 403(a)(5)(C)(I) of the Act, TANF, Balanced Budget Act of 1997) plus the WtW Interim Rule, 20 CFR Part 645.220, provide guidance to grantees on the subject of allowable WtW activities. This guidance addresses the types of program activities that are allowable. Grantees are provided flexibility in designing programs that most directly speak to the needs of their communities, and in addressing the goal of moving hard-to-employ welfare recipients into unsubsidized employment and self-sufficiency. However, while program activities may cover a wide range, all grantees must be familiar with the Federal rules that govern what costs may be actually charged to a WtW grant.

Guidance on allowable costs is found in a series of Federal guidelines issued by the Office of Management and Budget (OMB circulars). These are OMB Circular A-21, *Cost Principles for Educational Institutions*; A-87, *Cost Principles for State, Local and Indian Tribal Governments*; and A-122, *Cost Principles for Non-Profit Organizations*. These documents can be downloaded in their entirety from the OMB website, and each grantee should have a copy of its applicable circular for ready reference. A listing of website addresses is provide in Appendix B. The OMB circulars are incorporated by reference at 29 CFR Part 95.27 and 29 CFR Part 97.22 and are specified as WtW requirements in 20 CFR 645.230. For commercial organizations, acting either as a direct grant holder or as a subrecipient to a formula or competitive grantee, the cost principles detailed in the FAR, 48 CFR Part 31, apply. Further guidance on allowable costs is to be found in ASMB-10 (*Implementation Guide for OMB Circular A-87: Department of Health and Human Services*), and the nonprofit cost guide (also known as the *Indirect Cost Rate Determination Guide: Cost Principles and Procedures for Non-Profit Organizations*, U.S. DOL, OASAM).

Guidance provided in this chapter on the subject of allowable costs should in no way detract from the critical importance of continually referring to the OMB circulars on all questions of cost allowability, and of the importance of being familiar with the WtW regulations. Even though the

circulars do not address every possible cost, they are the groundwork for all grant financial management, and grantees should rely on their guidance to avoid audit liability. An extensive familiarity with OMB circulars, coupled with a knowledge of the provisions and certifications contained in the actual grant agreement, will help grantees avoid possible audit discrepancies and will help to ensure that their WtW program has the maximum impact on their communities.

FEDERAL COST PRINCIPLES

The following general cost principles, as specified in the cost circulars and regulations noted above, must be used in determining cost allowability for WtW grantees.

- # **Costs must be necessary and reasonable.** Any cost charged to a WtW grant must be “necessary and reasonable for the proper and efficient performance and administration” of the grant. A grantee is required to exercise sound business practices and to comply with its procedures for charging costs. A grantee is expected to exercise the same prudence with Federal funds as a person would with his or her own funds, asking the following questions: Do the costs incurred for administering the WtW grant appear reasonable when compared with costs incurred by the grantee for administering other Federal grant programs or non-Federal programs? Did the grantee solicit quotes in order to evaluate comparative prices?

- # **Costs must be allocable.** A grantee can charge costs to the grant if those costs are clearly identifiable as benefitting the WtW program. Costs charged to WtW should benefit only the WtW program, not other programs or activities. If a grantee conducts other programs in addition to WtW, allocation methods should be used to determine what share of costs should be charged to the WtW grant. A common cost issue often arises regarding salary and time charged to a grant for personnel compensation. A grantee can only allocate to the WtW grant the portion of time that a person spends supporting the implementation of WtW allowable activities.

- # **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 the WtW program, the interim rule at 20 CFR Part 645 contains several notable prohibitions, as well as allowable costs that would be permissible. For example, Section 408(a)(6) of the Act bars the use of TANF funds for medical services (and this applies to all WtW grants), but costs incurred for substance abuse treatment are allowable, to the “extent that such services are not medical and not otherwise available to the participant.” [20 CFR 645.220]

Additionally, the WtW Interim Rule contains specific guidance on information technology purchases (and the instances in which such purchases must be a direct cost or classified as an administrative cost not subject to the cost limitations); restrictions on real property (purchasing or construction of buildings is not allowable, but depreciation may be charged for real property acquired with non-Federal funds); and transportation services for WtW

participants (a full review of transportation costs is contained in Training and Employment Guidance Letter (TEGL) 10-98, issued December 23, 1998.)

- # **Costs must receive consistent treatment by a grantee.** A grantee must treat a cost uniformly across program elements or from year to year. Costs which are indirect for some programs cannot be considered a direct WtW cost. A cost may not be charged to the WtW grant as a direct cost if any other cost incurred for the same purpose, in like circumstances, has been charged to another grant as an indirect cost. Chapter 6, *Cost Allocation and Cost Pooling*, contains additional guidance on cost consistency.
- # **Costs must not be used to meet matching or cost-sharing requirements.** A grantee may not use, as a match requirement for WtW, a cost that was directly charged to WtW or to another program as match or an allowable cost.
- # **Costs must be adequately documented.** A WtW grantee 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 those employees who charge time against a WtW grant.
- # **Costs must conform to WtW exclusions and limitations.** A grantee or subgrantee may not charge a cost to the WtW grant that is unallowable per the WtW regulations or the cost limitations specified in the regulations. An example of this requirement is found at 20 CFR 645.211, which requires that, for both formula and competitive grants, at least 70% of the WtW grant funds are to be expended to benefit hard-to-employ individuals, and up to 30% allocated for individuals with characteristics associated with long-term welfare dependence.

Commercial Organizations: What are the guidelines?

As previously noted, commercial “for-profit” organizations may act in rare instances as either a direct WtW competitive grantee or more likely as a subrecipient to a WtW formula or competitive grantee. In those instances they are governed by the requirements found at FAR, 48 CFR Part 31. Key differences between nonprofits, governmental organizations, and commercial organizations include:

- Unless the commercial organization does extensive business with either the Federal or State government, it is likely to recover indirect costs as a part of the cost of its service or product.
- Costs typically are reimbursed following performance of the service (as in a fixed-price contract), or on an interim basis if the period of performance for the contract is of such duration to require interim reimbursement.

COST PRINCIPLES: ALLOWABLE VS. UNALLOWABLE

As noted above, the criteria contained in the OMB circulars should be used in determining whether costs are allowable. It is important that grantees be aware that the OMB circulars are designed to offer guidance on determining allowability of costs and should be used as the first source of reference. It is possible that, because a circular may not make mention of an item, it does not necessarily dictate that such a cost would be automatically allowed or prohibited. The cost should be treated consistently with the standards provided for similar or related costs.

It is important for all grantees to be familiar with OMB circulars *and* the WtW regulations. Costs may be allowable per the OMB circulars, allowable per the circulars but with conditions, or allowable per the circulars but unallowable per the WtW regulations. Similarly, some costs are allowable, but only with prior approval of either the Grant Officer (for WtW competitive grantees), or the Governor, or her/his designee (for WtW formula grantees.). The following examples attempt to delineate commonly incurred costs as they would apply to a particular type of grantee or subgrantee—state or local government, nonprofit organization, institution of higher education, or commercial organization. These are mostly direct costs, not indirect costs. A discussion of indirect costs takes place in Chapter 6.

- # **Travel.** Reasonable travel costs necessary to effectively manage the grant, provide oversight, and measure program effectiveness are allowable. Air travel, when necessary, should be obtained at the lowest possible customary standard (coach or equivalent). All OMB circulars treat these costs as allowable.

- # **Training.** A WtW grantee's professional development and training costs are allowable. Consistent with the "necessary and reasonable" provision, grantees should ensure that training is relevant to WtW or results in increasing the effectiveness of staff working on the WtW program.

- # **General Government Expenses.** Grantees should take great care to avoid charging general government expenses to a WtW grant. Salaries and costs incurred by States, counties, cities, or school boards not directly related to the WtW program are unallowable.

- # **Public Outreach and Advertising.** Grantees 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 WtW in order to generate participation are viewed by all circulars as allowable. Any public relations costs which solely promote the organization, or are not directly related to the WtW program, are considered unallowable. The circulars also contain specific requirements and prohibitions related to the use of advertising and advertising media.

- # **Professional Services and Consultants.** Costs associated with retaining professional services or consultants are allowable so long as they are reasonable and consistent with the requirements of the applicable circular. For competitive grantees, reimbursement for professional consultant services is currently capped at \$400 per day. For formula grantees, the current DOL ceiling is \$452 per day.

- # **Interest.** Grantees should be familiar with how their respective circular addresses this issue, as differences exist across circulars. Generally, interest on borrowed capital is unallowable. However, interest on payments for equipment are allowable as direct costs. Again, grantees should review the guidance in their relevant circular.
- # **Pre-Award Costs.** Unless authorized in writing by the Grant Officer (for competitive grantees only), pre-award costs cannot be charged to a WtW grant. Pre-award costs are not authorized for formula grantees.
- # **Allowable Capital Assets Costs.** Capital assets are noncurrent 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. In addition, land improvements and buildings and equipment repairs or maintenance expenditures that increase the value of a capital asset or increase its estimated useful life are classed as capital expenditures in Federal regulations. OMB Circular A-87, Attachment B, Item 19, provides the guidelines on the allowability of expenditures for acquisition of capital assets and guidelines on conditions, and applicable prior approval requirements. The costs of capital leases are treated in the same manner. The following are requirements for capital expenditures:
- A-87 requires the approval of the grantor agency for capital expenditures. This approval authority has been delegated to the States for the formula grants.
 - To the extent that State procedures for State organizations are sufficient to define the allowability of WtW capital asset acquisition costs and do not inappropriately constrain non-State organizations, the State's policy is applicable to non-State governmental subgrantees.
- # **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. Lease-purchase arrangements for real property, however, are unallowable. Permissible lease costs of real property are limited to operating leases, not capital leases.
- # **Prior approval.** Prior approval authority has been delegated to the Governor for the WtW formula grants. For competitive grantees, prior approval authority remains with the DOL Grant Officer.
- # **Start-up Costs.** Costs associated with the start-up of businesses are not considered allowable under the provisions of 20 CFR 645.220. However, job readiness activities and the purchase of equipment (with appropriate prior approval) will continue to be allowable costs.

The above examples are but a few of the specific items of cost that are addressed in the OMB circulars. Grantees and subgrantees are urged to become very familiar with their relevant OMB circular or the FAR for commercial organizations.

SELECTED ITEMS OF COST

Within each OMB cost circular, A-21, A-87, and A-122, and within 48 CFR Part 31, there is specific discussion of items of cost. Grantees should be familiar with these items and use them as ready references. The attached reference chart is a summary of all cost items mentioned in the applicable circulars. Note that some of these costs may be indirect. Grantees should also be familiar with the administrative cost limits as outlined in 20 CFR Part 645.235 for a full review of administrative costs.

Per the circulars, some items of cost require pre-approval. For competitive grantees, the Grant Officer is the approving authority, and for formula grants, the Governor or her/his designee is the approving authority.

As one can see, some items that are treated in one circular may not be treated in another. Similarly, there are some allowable costs that are not addressed at all in the OMB circulars. In addition, some cost items require prior approval, or are allowable per the circular but unallowable by the WtW regulations.

To the extent possible, these variations of allowability have been indicated in the attached table. Grantees and subgrantees are urged to consult closely with their applicable circular, and to be cognizant of WtW requirements. The table should be a starting reference point in inquiring as to specific items of cost, not a quick reference chart.

Summary of Cost Items

KEY

- NT = Not treated in circular
 A = Allowable
 AC = Allowable with conditions
 AP = Allowable with prior approval of either the Grant Officer or Governor
 U = Unallowable
 A/U = Some categories within the particular activity are allowable, while some are not. Please consult respective circular for precise explanations.
 UW = Unallowable by the WtW regulations (grantees should note that these costs could be allowable by the circulars)

	Activities	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/ae 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 (see also item 65)	Item 65	Reserved	Item 65	Item 65
11	Bonding costs	NT	A	A	NT
12	Budgeting	NT	NT	A	NT
13	Civil defense costs	A	NT	NT	A/U
14	Commencement and convocation costs	U	NT	NT	NT
15	Communication 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

	Activities	Circular A-21	Circular A-122	Circular A-87	48 CFR Part 31
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	U	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	UW	UW	UW	UW
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	U
30	Fines and penalties	U	U	U	U
31	Fund raising and investment management costs (see also item 40)	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	A	A	A	A

	Activities	Circular A-21	Circular A-122	Circular A-87	48 CFR Part 31
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 other 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 also 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 (see also item 68)	NT	NT	NT	U
59	Plant security costs	U	A	NT	NT
60	Preagreement costs (see also item 61)	U	NT	NT	NT
61	Pre-award costs	NT	AP	UW (formula)/AP	NT
62	Precontract 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

	Activities	Circular A-21	Circular A-122	Circular A-87	48 CFR Part 31
65	Proposal costs (see also item 10)	AP	Reserved	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	NT	A	NT	A/U
71	Rental costs 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	A	A	NT	NT
80	Student activity costs	U	NT	NT	NT
81	Taxes	AC	AC	AC	AC
82	Termination costs	NT	A	NT	A/U
83	Trade, business, technical, and professional activity costs	AC	AC	AC	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)	A	NT	NT	NT
88	Trustees	A	A	NT	NT
89	Under recovery of costs under Federal agreements	U	U	U	U