

# Allowable costs



EMPLOYMENT AND TRAINING ADMINISTRATION  
UNITED STATES DEPARTMENT OF LABOR

# What are Cost Principles?

- Set of government-wide rules
- Applicable to all Federal grants
- Define conditions for charging costs
  - Allowable & unallowable costs
  - Direct & Indirect costs
  - Descriptions

# Required?

- Incorporated by reference
  - Uniform Administrative Standards
    - 29 CFR 97.22
    - 29 CFR 95.27
  - WIA Regulations
    - 20 CFR 668.840
    - 20 CFR 667.200(c)



# Cost Principles

- OMB Circular A-87
- OMB Circular A-122
- OMB Circular A-21
- 48 CFR Part 31
- 45 CFR Part 74, Appendix E



# OMB Circulars A-87 & A-122

## *Circular Structure*

- Attachment A – Cost Principles
- Attachment B – Selected Items of Cost
- Attachment C – Indirect Cost Plans (A-87)
- Some variations between Circulars



# Federal Cost Principles

- Reasonable & Necessary
  - “proper & efficient”
  - “prudent person theory”
- Allocable
  - Clearly benefit program
  - Both direct & indirect costs



# Federal Cost Principles

- Authorized or not Prohibited
  - Federal, State, local law or regulations
- Consistent with the Rules
- Consistent Treatment
  - Across time
  - Direct & indirect costs



# Federal Cost Principles...

- Not Used as Match
  - Unless specifically authorized
- Documented
  - Traceable to source documentation
- Consistent with GAAP
  - Accounting standards & treatment



## The last of them...

- Conform to limitations/exclusions
- Net of applicable credits



## Additional Guidance

- ASMB C-10
  - Issued by HHS
  - Implementation of A-87
- DOL Indirect Cost Guide
  - Issued by DOL/OASAM
  - Non-Profit Grantees
  - Indirect Costs



# Allowable Costs

- Many defined in Circulars
  - Attachment B – Selected items of costs
    - A-87 & A-122
  - 48 CFR 31.205
  - A-21, Section J
- Program regulations
  - Allowable/prohibited activities
    - 20 CFR 668.340-350
    - 20 CFR 667.260-268



# Selected Items of Cost

- 3 types of Costs
  - Allowable
  - Unallowable
  - Allowable with Conditions
- If Cost not Treated-
  - Principles of necessary and reasonable apply



# Approval Conditions

- If prior approval requirement exists
  - BEFORE incurring cost
    - Must be requested in writing
    - Must be approved
  - May exist in grant agreement
- Approval requests to Grant Officer



# Examples

- Advertising/Public Relations
  - Outreach not treated
- Capital Assets
  - Equipment and Real Property
- Personal Services Costs
  - Includes salaries, benefits, etc.
  - Leave, severance & other pay



## More Examples

- Leasing
  - Capital leases
- Meetings
  - Including costs of meals
- Interest Costs
  - Cost of borrowing
  - Allowable as part of time purchases



# Conditions

- Pre-Award Costs
  - Approval required
  - Ordinarily not allowable
- Training & Education
  - Generally allowable
  - Relate to grant purposes
- Memberships
  - Depends on type of membership



# Unallowable

- Entertainment
  - WIA Youth recreation distinctions
  - Be careful with employee morale costs
- Losses
- Fines & Penalties
- Contingency Reserves



# WIA Unallowable Costs

- Legal expenses for prosecution of claims
  - Unallowable
  - Audit appeals to ALJ
  - Civil actions



# Prohibited Activities

- Employment Generating
  - Specific exceptions
- Sectarian Activities
  - Limited by 29 CFR 37.6(f) & Section 181(b)
  - Final regulations issued July 12, 2004
- Business relocation
- Displacement of workers



# Real Property

- Purchase or construction prohibited
- WIA Title I exceptions
  - Compliance with ADA or Rehabilitative Services requirements
  - SESA-owned or JTPA-owned & transferred
  - Job Corps facilities
  - Disaster relief projects



# Time Distribution

- Time & attendance records (PAR)
  - Various methods
- Time sampling methods
  - Cognizant agency approval
- Measurable work outputs
- Use also for allocating non-personnel costs



# Allocating Personnel Services

- Based on documented & approved payrolls
- Supported by time distribution system
- Method of allocation & support for allocation varies
- Major part of allocated costs



# Treatment of Costs

- Consistent treatment
  - In accounting system
  - Over time
- Measuring benefit
  - Critical requirement of cost allocation
  - Benefit determines allocation



# Types of Costs

- Direct
  - Single cost objective
- Shared
  - Multiple cost objectives, or
  - Multiple fund sources
- Indirect
  - Overhead



# Indirect Costs

- Allowable to Extent
  - Contained in Indirect Cost Allocation Plan
  - Approved by cognizant Federal Agency, if required
- Generally overhead costs of organization



# Cost Allocation Plans

- Written documentation of
  - Direct and allocated costs
  - Allocation methods used
- Supported by formal accounting records
- Signed by authorized agency official

# Grantees Subject to: OMB CIRCULAR A-87

- At least one source of direct Federal funding
- More than one source of revenue  
(Federal and Non-Federal)
  - Cost Allocation Plan (CAP), OR
  - Indirect Cost Rate (ICR)

*SUBJECT TO COGNIZANT AGENCY REVIEW  
AND APPROVAL*



## Types of CAP's

- Indirect Cost Plan
  - Addressed in Circulars
  - Federal Agency approval
- Cost Allocation Plan of the Organization
  - Shared costs
  - Awarding agency approval