

## **ALLOWABLE AND UNALLOWABLE COSTS**

### **BACKGROUND**

There are Federal cost principles that define when and how costs can be charged to grants. For all grants awarded on or after December 26th, 2014, the Uniform Administrative Guidance found at 2 CFR 200 will be the applicable cost principles. Even though the Uniform Administrative Guidance does not address every possible cost, it is the groundwork for all grant financial management, and all LWDA and other subrecipients should rely on this guidance to avoid audit findings and potential liability.

### **REFERENCES**

Workforce Innovation and Opportunity Act (WIOA) [PL 113-128 Sec. 184,185]  
2 CFR Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards  
2.2.8 Cost Principles, Allowable & Unallowable Costs, State WorkSource Georgia Policies & Procedures, TCSG Workforce Division

### **POLICY**

The following general cost principles, as specified in the Uniform Administrative Guidance must be used in determining cost allowability for grants.

- I. Costs must be necessary and reasonable. Any cost charged to a grant must be necessary and reasonable for the proper and efficient performance and administration of the grant. LWDA and their subrecipients are required to exercise sound business practices and to comply with its procedures for charging costs.
- II. Costs must be allocable. LWDA and their subrecipients may charge costs to the grant if those costs are clearly identifiable as benefiting the grant program. Costs charged to the grant should benefit only the grant program, 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.
- III. Costs must be authorized or not prohibited under federal, state, or local laws or regulations. Costs incurred must not be prohibited by any federal, state, or local laws.
- IV. Costs must receive consistent treatment by a grantee. LWDA and their subrecipients must treat a cost uniformly across program elements and from year to year. Costs that are indirect for some programs cannot be considered direct ETA grant costs.
- V. Costs must not be used to meet matching or cost-sharing requirements. A grantee may not use federally funded costs, whether direct or indirect, as match or to meet matching fund requirements unless specifically authorized by law.
- VI. Costs must be adequately documented. A grantee must document all costs in a manner consistent with GAAP. Examples include retaining evidence of competitive bidding for services or supplies, adequate time records for employees who charge time against the grant, invoices, receipts, purchase orders, etc.
- VII. Costs must conform to ETA grant exclusions and limitations. LWDA and their subrecipients may not charge a cost to the grant that is unallowable per the grant regulations or the cost limitations specified in the regulations.

- (a) The costs of administration are expenditures incurred by State and Local WDBs, Regions, direct grant recipients, including State grant recipients under subtitle B of title I of WIOA, and recipients of awards under subtitle D of title I, as well as local grant recipients, local grant subrecipients, local fiscal agents and one-stop operators that are associated with those specific functions identified in of this section and which are not related to the direct provision of workforce services, including services to participants and employers. These costs can be both personnel and non-personnel and both direct and indirect.
- (b) The costs of administration are the costs associated with performing the following functions:
1. Performing the following overall general administrative functions and coordination of those functions under WIOA Title I:
    - (i) Accounting, budgeting, financial and cash management functions
    - (ii) Procurement and purchasing functions
    - (iii) Property management functions
    - (iv) Personnel management functions
    - (v) Payroll functions
    - (vi) Coordinating the resolution of findings arising from audits, reviews, investigations, and incident reports
    - (vii) Audit functions
    - (viii) General ledger functions
    - (ix) Developing systems and procedures, including information systems, required for these administrative functions; and
    - (x) Fiscal agent responsibilities
  2. Performing oversight and monitoring responsibilities related to WIOA administrative functions
  3. Costs of goods and services required for administrative functions of the program, including goods and services such as rental or purchase of equipment, utilities, office supplies, postage, and rental and maintenance of office space
  4. Travel costs incurred for official business in carrying out administrative activities
  5. Costs of information systems related to administrative functions including the purchase, systems development, and operating costs of such systems
- (c)
1. Awards to sub-recipients or vendors that are solely for the performance of administrative functions are classified as administrative costs.
  2. Personnel and related non-personnel costs of staff that perform both administrative functions specified in paragraph (b) of this section and programmatic services or activities must be allocated as administrative or program costs to the benefitting cost objectives/categories.
  3. Specific costs charged to an overhead or indirect cost pool that can be identified directly as a program cost are to be charged as a program cost. Documentation of such charges must be maintained.
  4. Except as provided at paragraph (c)(1) of this section, all costs incurred for functions and activities of subrecipients, other than those subrecipients listed in paragraph (a) of this section, and contractors are program costs.

5. Continuous improvement activities are charged to administration or program category based on the purpose or nature of the activity to be improved. Documentation of such charges must be maintained.
  6. Costs of the following information systems including the purchase, systems development, and operational costs (e.g., data entry) are charged to the program category:
    - (i) Tracking or monitoring of participant and performance information;
    - (ii) Employment statistics information, including job listing information, job skills information, and demand occupation information;
    - (iii) Performance and program cost information on eligible training providers, youth activities, and appropriate education activities;
    - (iv) Local area performance information; and
    - (v) Information relating to supportive services and unemployment insurance claims for program participants.
- (d) Where possible, entities identified in paragraph (a) of this section must make efforts to streamline the services in paragraphs (b)(1) through (5) of this section to reduce administrative costs by minimizing duplication and effectively using information technology to improve services.

### **DISALLOWED COSTS**

All costs associated with an unallowable activity are considered disallowable costs, regardless of the permissibility under other circumstances. Examples of unallowable activities include, but are not limited to the following.

WIOA funds may not be expended for the following activities:

- Any legal expenses incurred for 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 (2 CFR 200.435(4J)(g));
- The costs of a construction or purchase of facilities or buildings or other capital expenditures for improvements to land or buildings, are unallowable for all WIOA Title 1-B programs (20 CFR 683.235), except with prior written approval from the U.S. Department of Labor (20 CFR 683.235);
- Public service employment, except when authorized under Title I of WIOA;
- Employment-generating activities, investment in revolving loan funds, capitalization of businesses, investment in contact bidding resource centers, economic development activities or similar activities. An exception is made only for those employer outreach and job development activities directly related to participants;
- The wages of incumbent workers during participation in economic development activities provided through the state workforce system;
- Foreign travel and first-class airline tickets;
- Employment or training programs for sectarian activities. This section does not prohibit the provision of services by faith-based organizations, unless those services are sectarian in nature;
- Expenses prohibited under any other federal, state, or local law or regulation;
- Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports

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events, meals, lodging, rentals, transportation, and gratuities) are unallowable (2CFR200.438); and

- Salary and Bonus Restrictions Using WIOA Funds:

In instances where funds awarded under WIOA Title I or the Wagner-Peyser Act pay only a portion of the salary or bonus, the WIOA Title I or Wagner-Peyser Act funds may only be charged for the share of the employee's salary or bonus attributable to the work performed on the WIOA Title I or Wagner-Peyser Act grant. The restriction applies to the sum of salaries and bonuses charged as either direct costs or indirect costs under WIOA Title I and the Wagner-Peyser Act (Final Rule 6B3.290(b)).

In addition, disallowed costs may occur in the following circumstances:

- costs that are submitted for persons not registered or active in the appropriate State Work Ready Participant Portal system activity for the period for which payments were made.
- invoice items or benchmark information that is not supported by adequate documentation;
- past due/late fee charges;
- any fact or information upon which the receipt of payment depends is misrepresented or misstated.