

ALLOWABLE COSTS AND PRIOR WRITTEN APPROVAL

GENERAL INSTRUCTIONS

The attached directive is being issued in draft to give the Workforce Development Community the opportunity to review and comment prior to final issuance.

Submit any comments by email or mail no later than **November 28, 2016**.

All comments received within the comment period will be considered before issuing the final directive. Commenters will not be responded to individually. Rather, a summary of comments will be released with the final directive.

Comments received after the specified due date will not be considered.

Email MelissaM.Williams@edd.ca.gov

Include "Draft Directive Comments" in the email subject line.

Mail Employment Development Department
Attn.: COWSD Policy Unit
P.O. Box 826880 / MIC 50
Sacramento, CA 94280-0001

If you have any questions, contact Melissa Williams at 916-654-0205.

ALLOWABLE COSTS AND PRIOR WRITTEN APPROVAL

EXECUTIVE SUMMARY

This policy provides guidance and establishes procedures regarding general cost principles, allowable costs, and prior written approval under the *Workforce Innovation and Opportunity Act* (WIOA) and the Office of Management and Budget's (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). This policy applies to subrecipients of WIOA funds and is effective immediately.

This policy contains no state-imposed requirements.

This directive supersedes Workforce Services Directive *Allowable Costs* (WSD15-15), dated January 22, 2016. Retain this directive until further notice.

REFERENCES

- WIOA (Public Law 113-128) Sections 184(a)(3), 134(c)-(d), and 129
- Title 2 *Code of Federal Regulations* (CFR) Parts 200 and 2900
- Training and Employment Guidance Letter (TEGL) 15-14, Subject: *Implementation of the New Uniform Guidance Regulations* (December 19, 2014)
- WSD14-13, Subject: *Property—Prior Approval, Purchasing, Inventory, and Disposal* (April 29, 2015)
- Workforce Investment Act Directive WIAD03-10, Subject: *Allowable Costs* (April 09, 2004)

BACKGROUND

On December 26, 2013, the OMB issued the [Uniform Guidance](#) under Title 2 CFR Part 200, which establishes uniform administrative requirements, cost principles, and audit requirements for federal awards. The Uniform Guidance consolidated multiple, previously separate, sets of OMB guidance into one combined set of rules. The following year, the Department of Labor (DOL) adopted the OMB Uniform Guidance and issued DOL Exceptions under Title 2 CFR Part 2900.

The Uniform Guidance applies to all federal awards made on or after December 26, 2014. Therefore, beginning with WIOA Program Year 2015-16 funds, all subrecipients of this funding must adhere to the Uniform Guidance, DOL Exceptions, and corresponding WIOA administrative requirements, cost principles, and audit requirements. For more information on Uniform Guidance implementation, please see [TEGL 15-14](#).

POLICY AND PROCEDURES

Each state, Local Workforce Development Area (Local Area), and provider that receives funds under WIOA Title I is required to comply with Uniform Guidance (WIOA Section 184[a][3]). This includes general principles and guidance on selected items of cost. However, if more restrictive city, state, or federal guidelines exist, they take precedence. Local Areas should review and update their local policies and procedures to ensure compliance with this new guidance.

The Employment Development Department (EDD) has compiled a high-level matrix listing various cost items referenced in Title 2 CFR Sections 200.420 through 200.475 (Attachment 1). The columns in the matrix contain various entity types, specific CFR Sections, and DOL Exceptions Sections (if applicable). The matrix also provides a quick reference guide indicating whether a cost item is allowable or not. WIOA funding recipients and subrecipients can use the matrix as an initial tool, rather than the final authority, to determine whether a cost is allowable or not.

In general, to be an allowable charge to WIOA, a cost must meet the following criteria:

- Be necessary and reasonable for the performance of the award.
- Be allocable to the award.
- Conform to any limitations or exclusions set forth in the award.
- Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-federal entity.
- Be accorded consistent treatment.
- Be determined in accordance with generally accepted accounting principles.
- Not be used to meet cost sharing or matching requirements of any other federally financed program (without prior approval from the state).
- Be adequately documented.

Expenditure of WIOA funds is only allowable for those activities permitted by the WIOA statute or federal regulations. Required and permissible program activities for adult and dislocated workers can be found in WIOA Sections 134(c) and (d) respectively. Similarly, allowable program activities for the youth program can be found in WIOA Section 129.

Funds Awarded Prior to December 26, 2014

Funding received prior to December 26, 2014 (i.e., PY 2014-15 funds and before) must continue to follow the terms and conditions of those awards, including the cost principles required under the former OMB circulars. For information on allowable costs under the former OMB circulars, please refer to [WIAD03-10](#).

Prohibited Use of Funds

Subrecipients that receive WIOA Title I funds must comply with the restrictions on political activities as specified in WIOA Section 195. This provision prohibits the use of WIOA Title I funds for publicity or propaganda purposes, or for materials designed to support or defeat the enactment of federal, state, or local legislation, proposed or pending regulation, administrative action, or order issued by the executive branch of any state or local government. This also includes prohibition of the use of Title I funds for activities designed to influence the enactment or issuance of legislation, appropriations, regulations, administrative action, or Executive Order proposed or pending before Congress, any state government, state or local legislature, or legislative body.

Prior Written Approval

The Uniform Guidance includes administrative requirements and cost items that are allowable only with prior written approval from the federal awarding agency or pass through entity. Subrecipients should review the terms and conditions of their grant agreements to determine the appropriate authority to grant prior approval. As the pass-through entity of WIOA Title I funds, the EDD is responsible for granting prior approval in most cases.

Under any given federal award, the reasonableness and allocability of certain cost items may be difficult to determine. In order to avoid subsequent disallowance or dispute, subrecipients should obtain prior written approval for the incurrence of special or unusual costs. The following matrix lists key sections of the Uniform Guidance that address when prior written approval is required.

Circumstance	Section
Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts	§200.201 , paragraph (b)(5)
Cost sharing or matching	§200.306
Program income	§200.307
Revision of budget and program plans	§200.308
Real property	§200.311
Equipment	§200.313
Fixed amount sub awards	§200.332
Direct costs	§200.413 , paragraph (c)
Compensation—personal services	§200.430 , paragraph (h)

Compensation— fringe benefits	§200.431
Entertainment costs	§200.438
Equipment and other capital expenditures	§200.439
Exchange rates	§200.440
Fines, penalties, damages and other settlements	§200.441
Fund raising and investment management costs	§200.442
Goods or services for personal use	§200.445
Insurance and indemnification	§200.447
Memberships, subscriptions, and professional activity costs	§200.454 , paragraph (c)
Organization costs	§200.455
Participant support costs	§200.456
Pre-award costs	§200.458
Rearrangement and reconversion costs	§200.462
Selling and marketing costs	§200.467
Taxes (including Value Added Tax)	§200.470
Travel costs	§200.474

Subrecipients should thoroughly review the Uniform Guidance sections referenced above to determine when prior written approval must be obtained and assess if their specific circumstance(s) require prior approval. As indicated in DOL Exception Section 2900.407, inclusion of item(s) in the statement of work or budget when awarded does not constitute prior approval; subrecipients must still follow all applicable policies and procedures outlined in this directive.

Property procurements with a unit acquisition cost of \$5,000 or more must have prior written approval. A non-property related purchase or circumstance that fits into one of the above referenced categories may still require prior written approval, regardless of the dollar amount.

Prior Written Approval Procedures

Subrecipients must complete and submit the Prior Written Approval Request form (Attachment 2), along with all necessary supporting documentation, to their assigned Regional Advisor no less than 30 days before the requested action is to occur.

The EDD will consider the following factors in its review of the requests:

- Is this purchase necessary and reasonable?
- Have the best products been selected?
- What other costs are associated with the purchase?
- If applicable, what procurement method will be used?
- If applicable, was a lease option considered in lieu of the purchase?

The Prior Written Approval Request form and supporting documentation can be submitted to the assigned Regional Advisor electronically or through one of the methods listed below.

Mail
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ATTN: (Name of Regional Advisor)
Workforce Service Division, MIC 50
Employment Development Department
P.O. Box 826880
Sacramento, CA 94280-0001

Courier Service/
Overnight Mail

ATTN: (Name of Regional Advisor)
Workforce Services Division, MIC 50
Employment Development Department
722 Capitol Mall
Sacramento, CA 95814

Subrecipients will receive a formal notification from their assigned Regional Advisor providing approval or denial of their request. Written approval must be received prior to the cost being incurred.

Approval is based on the supplied justification and supporting documentation for the proposed expenditure. If the actual expenditure is not in accordance with the justification or OMB Uniform Guidance requirements, the expenditure can still be questioned or disallowed. Factors affecting this include, but are not limited to, the following:

- Inadequate justification.
- Failure to follow internal, state, or federal policies.
- Expenditure is not necessary or reasonable.
- Failure to comply with applicable federal law or regulations.

Documentation

Supporting documentation must be retained for all costs associated with a prior approval request. The documentation must establish that the expenditure:

- Meets the cost principles (is necessary and reasonable for proper and efficient performance and administration of the grant).
- Is allocable to the grant based upon the benefits received.
- Is authorized or not prohibited under state or local laws regulations.
- Conforms to any limitations or exclusions of cost item types or amounts, as set forth in the Uniform Guidance, federal law, federal award, or other governing regulations.
- Is consistent with applicable polices, regulations, and procedures.

ACTION

Please bring this directive to the attention of all appropriate staff and subrecipients.

INQUIRIES

If you have any questions, contact your assigned [Regional Advisor](#) at 916-654-7799.

/S/ JOSÉ LUIS MÁRQUEZ, Chief
Central Office Workforce Services Division

Attachments are available on the internet:

1. [Cost Items Matrix](#)
2. [Prior Written Approval Request Form](#)

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