



Fiscal Policies

Allowable Cost and Prior Approval

POLICY #:	<i>F-2003, Rev. 4</i>
EFFECTIVE:	<i>October 29, 2024</i>
SUPERSEDES:	<i>Allowable Cost and Prior Approval Policy, Rev. 3, effective February 8, 2023</i>

PURPOSE:

This policy provides guidance for allowable cost and prior approval requirements for Federal grants, including the Workforce Innovation and Opportunity Act (WIOA) Title I funds.

This policy was revised in its entirety for clarity purposes and to align with updated Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards that became effective October 1, 2024.

BACKGROUND:

The application of the Federal cost principles is based on the fundamental premises that the Federally funded recipient and subrecipient are responsible for:

- The efficient and effective administration of the Federal award through sound management practices.
- Administering Federal funds in a manner consistent with Federal statutes, regulations, and the terms and conditions of the Federal award.
- In recognition of their unique combination of staff, facilities, and experience, for employing organization and management techniques necessary to ensure the proper and efficient administration of the Federal award.

The accounting practices of the recipient and subrecipient must be consistent with these cost principles and support the accumulation of costs as required by these cost principles, including maintaining adequate documentation to support costs charged by the Federal award.

The recipient or subrecipient must not earn or keep any profit resulting from Federal financial assistance unless explicitly authorized by the terms and conditions of the Federal award (see also 200.307). When the required activities of a fixed amount award were completed in accordance with the terms and conditions of the award, the unexpended funds retained by the recipient or subrecipient are not considered profit.



Federal direction for cost principles and allowable activities funded under WIOA are at 20 CFR Section 683.200 and the One-stop Comprehensive Financial Management Technical Assistance Guide, Part II.

Recipients and subrecipients of federal awards must follow the Uniform Guidance at 2 CFR parts 200, .215, .230, and .255, including appendices I through XI, including exceptions identified at 2 CFR part 2900.

Commercial and for-profit organizations that are recipients and subrecipients of a federal award must follow 2 CFR part 200, and include applicable exceptions identified at 2 CFR part 2900 and the Federal Acquisition Regulations (FAR) including 48 CFR part 31.

POLICY:

WorkForce Central complies with allowable cost principles at 2 CFR 200 Subpart E, Washington State Employment Security Department (ESD) Policy 5260 – Allowable Cost and Prior Approval Requirements (current and future revisions), and applicable federal, state, and local policies and regulations. WorkForce Central will ensure its Federally funded subrecipients and contractors comply with appropriate cost principles and administrative rules through ongoing oversight and monitoring activities.

ALLOWABLE COSTS

Expenditures of Federal funds are allowable only for activities permitted by the applicable Federal regulations. Statutory requirements may limit the allowability of costs. Any costs that exceed the maximum amount allowed by statute may not be charged to the Federal award. Only the amount allowed by statute may be charged to the Federal award. As a general rule, recipients of Federal funds are advised to review relevant Federal documents when planning a program or expenditure.

Except where otherwise authorized by statute, costs must meet the following criteria to be allowed under Federal awards:

- Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- Be consistent with policies and procedures that apply uniformly to both Federally financed and other activities of the recipient or subrecipient.
- Be accorded consistent treatment. For example, a cost must not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

- Be determined in accordance with generally accepted account principles (GAAP), except, for State and local governments and Indian Tribes only, as otherwise provided for in this part.
- Not be included as a cost or used to meet cost sharing requirements of any other Federally financed program in either the current or a prior period.
- Be adequately document.
- Be incurred during the approved budget period; Federal awarding agencies are authorized, at their discretion, to waive prior written approvals to carry forward unobligated balances to subsequent budget periods.

A cost is reasonable if it does not exceed an amount that a prudent person would incur under the circumstances prevailing when the decision was made to incur the cost. In determining the reasonableness of a given cost, consideration must be given to the following:

- Whether the cost is generally recognized as ordinary and necessary for the recipient's or subrecipient's operation or the proper and efficient performance of the Federal award.
- The restraints or requirements imposed by such factors as sound business practices; arm's-length bargaining; Federal, State, local, tribal, and other laws and regulations; and terms and conditions of the Federal awards.
- Market prices for comparable costs for the geographic area.
- Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the recipient or subrecipient, its employees, its students or memberships (if applicable), the public at large, and the Federal Government.
- Whether the cost represents a deviation from the recipient's or subrecipient's established written policies and procedures for incurring costs.

Payments made for costs determined to be unallowable by either the awarding Federal agency, cognizant agency for indirect costs, or pass-through entity (e.g., WA State ESD and WorkForce Central) must be refunded with interest to the Federal Government.

WIOA Title I Allowable Costs

Expenditures of WIOA Title I funds are allowable only for activities permitted by the WIOA title I and related regulations. Allowable activities include basic, individualized, and follow-up career services, training services, and supportive services:

- Allowable basic, individualized, follow-up and training services are described in WIOA Law, Section 134(c)(2) and (3). Training services and follow-up services are further described in WorkForce Central's Individualized Training Account (ITA) Policy and WorkForce Central's Follow-up Services & Recording Performance after Exit Policy.

- Allowable supportive services and needs-related payments are described in Section 134(d)(2) and (3), 20 CFR Part 680 Part G, ESD Policy 5602 (current and future revision), and WorkForce Central’s Supportive Services Policy.
- Allowable incentive payments to WIOA Title I participants are described and ESD Policy 5621 (current and future revisions) and WorkForce Central’s Supportive Services Policy.
- Allowable stipend payments to WIOA Title I youth participants are described in ESD Policy 5622 (current and future revisions).
- Authorized activities for WIOA Title I Adult and Dislocated Worker programs are detailed in WIOA Section 134 and 20 CFR Part 680.
- Authorized activities for WIOA Title I Youth programs are detailed in WIOA Section 129 and 20 CFR Part 681 and WorkForce Central’s WIOA Title I Eligibility, Enrollment & Documentation Policy and accompanying Policy Handbook.

ESD Policies are located at ESD’s [Workforce Professionals Center website](#).

WorkForce Central policies are located on WorkForce Central’s [Policy Library](#).

General principles and guidance on selected items and on allowable and unallowable costs are provided in 2 CFR Part 200. Prohibited WIOA Title I activities are specified in WIOA Sections 683.235 – 683.270 and Section 679.410 of the Final Rules.

PRIOR APPROVAL REQUIREMENTS

The reasonableness and allocability of certain costs under Federal awards may be difficult to determine. To avoid subsequent disallowance or dispute based on unreasonableness or non-allocability, the recipient may seek the prior written approval of the Federal agency (or, for indirect costs, the cognizant agency for indirect costs) before incurring the cost. The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that cost **unless prior approval is specifically required** for allowability as described under certain circumstances in the following sections of the Uniform Guidance:

- 200.306(c)-Cost sharing:
 - Unrecovered indirect costs, including indirect costs on cost sharing may be included as part of cost sharing with the prior approval of the Federal agency or pass-through entity (e.g., WA State ESD or WorkForce Central).
- 200.307(b)-Program Income:
 - When no program income method is specified in the Federal award, prior approval is required to use the addition or cost sharing methods.
- 200.308(b)-Revision of budget and program plans:

- The recipient or subrecipient must report deviations from the approved budget, project or program scope, or objective(s). The recipient or subrecipient must request prior approvals from the Federal agency or pass-through entity (e.g., WA State ESD and WorkForce Central) for budget and program plan revisions.
- 200.333 Fixed amount subawards:
 - With prior written approval from the Federal agency, the recipient may provide subawards based on fixed amounts up to \$500,000. Fixed amount subawards must meet the requirements of 200.201.
- 200.430(i)(1)(ii)-Compensation-personal services:
 - To charge payments of incidental activities directly, such activities must either be expressly authorized in the Federal award budget or receive prior written approval by the Federal agency.
- 200.431(h)(7)(i)(2)(ii) -Compensation-fringe benefits:
 - Severance pay: Measuring the costs of abnormal or mass severance pay by means of an accrual method will not achieve equity for both parties. Therefore, accruals are not allowable. However, the Federal Government recognizes its responsibility to contribute its fair share toward a specific payment. Prior approval by the Federal agency or cognizant agency for indirect costs, as appropriate, is required.
- 200.439(b)-Equipment and other capital expenditures:
 - (1) Capital expenditures for general purpose equipment, buildings, and land are allowable as direct costs, but only with the prior written approval of the Federal agency or pass-through entity (e.g., WA State ESD and WorkForce Central).
 - (2) Capital expenditures for special purpose equipment are allowable as direct costs, provided the items with a unit cost of \$10,000 or more have the prior written approval of the Federal agency or pass-through entity (e.g., WA State ESD and WorkForce Central).
 - (3) Capital expenditures for improvements to land, buildings, or equipment that materially increase their value or useful life are allowable as a direct cost, but only with the prior written approval of the Federal agency or pass-through entity (e.g., WA State ESD and WorkForce Central).
 - In accordance with 2 CFR Part 230 Appendix B, Section 15, the WA State Employment Security Department (ESD) requires all entities receiving WIOA Title I funds request and obtain prior approval for all single item equipment and capital improvement purchases that cost \$10,000 or more. Procedures for requesting prior approval are detailed in ESD Policy 5260 (current and future revisions).
- 200.440(a)-Exchange rates, damages, and other settlements.

- Prior approval of exchange rate fluctuations is required only when the change results in the need for additional Federal funding, or the increased costs result in the need to significantly reduce the scope of the project.
- 200.441-Fines, penalties, damages, and other settlements:
 - Unallowed except when incurred as a result of compliance with specific provisions of the Federal award or with the prior written approval of the Federal agency.
- Section 200.442(a)-Fund raising and investment management costs:
 - Fundraising costs for meeting the Federal program objectives are allowable with the prior written approval of the Federal agency.
- Section 200.445(b)-Goods or services for personal use:
 - Housing costs (for example, depreciation, maintenance, utilities, furnishings, rent), housing allowances, and personal living expenses for the recipient's or subrecipient's employees are only allowable as direct costs and must be approved in advance by the Federal agency.
- Section 200.447-Insurance and indemnification
 - (b)(2) Costs of insurance or contributions to any reserve covering the risk of loss of, or damage, to Federal Government property are unallowable except to the extent that the Federal agency has approved the costs.
 - (b)(6) Actual losses which could have been covered by permissible insurance (through a self-insurance program or otherwise) are unallowable unless expressly authorized in the Federal award.
- Section 200.455-Organization costs:
 - (a) Costs such as incorporation fees, brokers' fees, fees to promoters, organizers or management consultants, attorneys, accountants, or investment counselors, whether or not employees of the recipient or subrecipient in connection with the establishment or reorganization of an organization, are unallowable except with prior approval of the Federal agency.
- Section 200.458-Pre-award costs:
 - These costs are allowable only to the extent that they would have been allowed if incurred after the start date of the Federal award and only with the written approval of the Federal agency. If approved, these costs must be charged to the initial budget period of the Federal award unless otherwise specified by the Federal agency or pass-through entity (e.g., WA State ESD and WorkForce Central).
- Section 200.462-Rearrangement and reconversion costs:
 - (a) Costs incurred for ordinary and normal rearrangement and alteration of facilities are allowable as indirect costs. Special arrangements and alterations are allowable as a direct cost if the costs are incurred specifically for a Federal award



and with the prior approval of the Federal agency or pass-through entity (e.g., WA State ESD and WorkForce Central).

- Section 200.475-Travel costs:
 - (a) Notwithstanding the provisions of 200.44, travel costs of officials covered by that section are allowable with the prior written approval of the Federal agency or pass-through entity (e.g., WA State ESD and WorkForce Central) when they are specifically related to the Federal award.

WorkForce Central's subrecipients and contractors must receive prior written approval from their WorkForce Central contract manager for any of the above circumstances.

WorkForce Central will follow instructions in the Washington State Employment Security Department (ESD) Policy 5260-Allowable Cost and Prior Approval Requirements (current and future revisions) when requesting written approval for any of the above circumstances.

REFERENCES:

- Public Law 113-128-WorkForce Innovation and Opportunity Act of 2014
- 2 CFR Part 200-Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.
- Generally Accepted Accounting Principles (GAAP)
- ESD Policy 5260 (current and future revisions)-Allowable Cost and Prior Approval Requirements

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