

## Chapter DWD 805

### ALLOWABLE COST UNDER THE JOB TRAINING PARTNERSHIP ACT OF 1982

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**Note:** Chapter ILHR 805 was renumbered to chapter DWD 805 under s. 13.92 (4) (b) 1., Stats., and corrections made under s. 13.92 (4) (b) 7., Stats., Register November 2008 No. 635.

**DWD 805.01 Definitions.** In this chapter, the following words and phrases have the designated meaning, unless otherwise provided.

(1) “Act” means the Job Training Partnership Act, of 1982 29 USC 1501 et seq. 1658.

(2) “Acquisition cost” means the invoice unit price of an item of equipment, net of any applicable credits or trade-in allowances, but including the costs of any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is acquired. Ancillary charges, such as taxes, duty, protective in-transit insurance, freight, and installation shall be included in or excluded from acquisition cost in accordance with the organization’s regular written accounting practices.

(3) “Administration”, when used as a cost category name, means all direct and indirect costs which are necessary to effectively manage a Job Training Partnership Act grant, including administrative costs of subgrantees and contractors and comprised of goods and services which do not immediately affect participants.

(4) “Applicable credits” means those receipts or reduction of expenditure-type transactions which offset or reduce expense items allocable to grants as direct, joint or indirect costs. Examples of such transactions are: purchase discounts; rebates or allowances; recoveries or indemnities on losses; and adjustments of overpayments or erroneous charges.

(5) “Cognizant federal agency” means the federal agency that has been assigned responsibility by the office of management and budget for approving the indirect cost proposal of a specific state or local government, school or university, or other nonprofit organization.

(6) “Cost categories” means the allowable classifications for charges to JTPA grants: training, administration, and participant support. (20 CFR 629.38)

(7) “Cost objectives” means a pool, or area established for the accumulation of costs. Such areas include organizational units, functions, objects or items of expense, as well as ultimate cost objectives including specific grants, cost categories or program activities.

(8) “Direct cost” means any cost which can be identified specifically with one particular cost objective. Examples are training payments under On-The-Job-Training contracts, books and other teaching aids, and needs based payments.

(9) “Division” means the division of employment and training within department of workforce development.

(10) “Division grantee” means an organization or agency receiving a grant of JTPA funds directly from the division.

(11) “Equipment” means an article of nonexpendable tangible personal property having a useful life of more than one year and an acquisition cost of \$500 or more per unit. An organization may use its own definition provided that it at least includes all nonexpendable tangible personal property as defined herein.

(12) “Facilities” means land and buildings or any portion thereof, equipment individually or collectively, or any other tangible capital asset, wherever located, and whether owned or leased by the organization.

(13) “Grantee” means an organization or agency receiving a grant of JTPA funds, either directly from the division or from another grantee.

(14) “Grantor” means the division, an organization or an agency from which the grantee receives its grant.

(15) “Idle capacity” means the unused capacity of partially used facilities. It is the difference between that which a facility could achieve under 100% operating time and the extent to which the facility was actually used to meet demands during the accounting period.

(16) “Idle facilities” means completely unused facilities that are excess to the organization’s current needs.

(17) “Indirect cost” means any general management cost, incurred for a purpose benefiting more than one cost objective, which is not readily assignable to the cost objectives benefited without effort disproportionate to the results achieved.

(18) “Joint cost” means any cost which benefits more than one cost objective, but which is readily assignable to the cost objectives benefited. Examples are the salary of a staff person teaching both a vocational skills program and an employer-linked training program, or the salary of an individual who administers and provides training for a program.

(19) “Participant” means any individual who has been determined eligible for participation upon intake and started receiving subsidized employment, training or services (except post-termination services) funded under the Job Training Partnership Act of 1982, following intake, except for an individual who receives only outreach and/or intake and assessment services.

(20) “Participant support”, when used as a cost category name means those non-training costs which affect participants.

(21) “Prior approval” means securing advance written permission to incur costs are designated as requiring prior approval.

(22) “Private industry council”, or “PIC”, means the council established for each SDA in accordance with section 102 of the Job Training Partnership Act of 1982.

(23) “Regulations” means department of labor-employment and training administration’s implementing regulations for programs under the Job Training Partnership Act, 20 CFR Parts 626 through 638, or other authorities in pursuit of remedies and sanctions available outside the Act.

(24) “Service delivery area”, or “SDA”, means a geographic area designated by the governor for administering JTPA funds in accordance with section 101 of the Job Training Partnership Act of 1982.

(25) “Subgrantee” means an organization or agency receiving a grant of JTPA funds from any grantee. “Training”, when used as a cost category name, means goods and services which directly and immediately affect participants in either a work environment or training setting.

(26) "Training", when used as a cost category name, means those costs of goods and services which directly and immediately affect program participants in either a work environment or training setting.

**History:** Cr. Register, July, 1986, No. 367, eff. 8-1-86; am. (1), Register, November, 1995, No. 479, eff. 12-1-95; **correction in (9) made under s. 13.92 (4) (b) 6., Stats., Register November 2008 No. 635.**

**DWD 805.02 General principles.** To be allowable, grantee costs shall meet the following general criteria:

(1) Be necessary and reasonable for proper and efficient administration of the grant programs, be allocable to the grant programs under this chapter and, except as specifically provided in this chapter, not be a general expense required to carry out the overall responsibilities of the grantee.

(2) Be authorized or not prohibited under federal, state or local laws or regulations.

(3) Conform to any limitations or exclusions set forth in this chapter or other governing limitations as to types or amounts of cost items.

(4) Be consistent with policies, regulations, and procedures that apply uniformly to other activities of the agency of which the grantee is a part.

(5) Be accorded consistent treatment through application of generally accepted accounting principles appropriate to the circumstances.

(6) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally financed program in either the current or a prior period, unless specifically authorized.

(7) Be net of all applicable credits.

(8) Be adequately documented.

**History:** Cr. Register, July, 1986, No. 367, eff. 8-1-86.

**DWD 805.03 Allocation of joint costs.** (1) A cost is allocable to a particular cost objective, such as a title, program activity or cost category, in accordance with the relative benefits received. A cost is allocable to a given grant if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:

(a) Is incurred specifically for the grant.

(b) Benefits both the grant and other work and can be distributed in reasonable proportion to the benefits received.

(c) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.

(2) Any cost allocable to a particular grant or other cost objective under this chapter cannot be shifted to other federal grants to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the grant.

(3) For audit purposes, a written plan for allocation of costs shall be necessary to support the distribution of any joint costs related to the grant. All costs included in the plan shall be supported by formal accounting records which will substantiate the propriety of eventual charges.

(4) The allocation plan of the grantee shall cover all joint costs as well as costs to be allocated under plans of other organizational units which are to be included in the costs of the JTPA programs. The cost allocation plans shall be presented in a single document. The allocation plan shall contain, but not necessarily be limited to, the following:

(a) The nature and extent of services provided and their relevance to the JTPA programs.

(b) The items of expense to be included.

(c) The methods to be used in distributing cost.

(d) A justification for the methods to be used.

(5) Direct costs shall be charged directly to grants. The allocation method used to distribute joint costs shall be based on a rea-

sonable measurement of benefit received by each cost objective and shall be supported by a written cost allocation plan. A key factor in cost allocation plans is that the method used must be a determination of actual activities; budget estimates do not qualify as support for final charges. However, the effort required to distribute the cost should not be disproportionate to the dollar amount of costs charged.

(6) Grantees may pool all of their JTPA administrative funds. Where this is done, the administrative cost pool must include all of the costs of administration for all JTPA programs. Only actual, not budgeted, administrative costs shall be charged to the administrative cost pool.

(7) Where an administrative cost pool is used, the pool must be distributed between the various funding sources, titles, and within Title IIA, between youth and adult for reporting purposes. While the method of distribution need not meet the normal criteria for cost allocation, the method used shall be in writing and be applied consistently from period to period.

**History:** Cr. Register, July, 1986, No. 367, eff. 8-1-86.

**DWD 805.04 Indirect costs.** (1) INTRODUCTION. (a) There is no single standard for classifying specific costs as either joint or indirect for all agencies. Because of differing organizational structures and accounting systems, some grantees may be able to treat all costs as joint, and will not need to seek an approved indirect cost rate.

(b) Only allowable costs shall be included in the indirect cost pool. In addition, while use of an indirect cost rate may facilitate charging overhead costs to JTPA programs. In no case, may total SDA administrative costs for Titles IIA and IIB exceed the cost limit.

(2) DIVISION GRANTEE OTHER THAN SDAS. State agencies, and other grantees with which the division may have a direct relationship, will often have indirect cost rates or methods already approved by a cognizant federal agency. Where that is the case, the division will review that rate or method and approve an indirect cost rate which may not result in charges that exceed the indirect cost rate approved by the cognizant federal agency. Where there is no indirect cost rate approved by a cognizant federal agency, the division will not review and approve an indirect cost rate; those grantees wishing to use an indirect cost rate must first turn to a federal agency in order to establish one.

(3) SDAS. (a) Some SDAs may select grant recipients and administrative entities whose only function is to administer JTPA. In those cases, no indirect cost rate is necessary.

(b) Some SDAs may select agencies which have indirect cost rates already approved by a cognizant federal agency. This may occur, for example, if the administrative entity or grant recipient is a county. In those cases, the division will review the cognizant federal agency's rate and approve a rate for indirect costs for JTPA which may not exceed the federally approved rate.

(c) In some cases, agencies may be selected which do not have indirect cost rates, but which wish to establish a rate to facilitate charging general overhead costs to JTPA. In those cases, the division will provide technical assistance, and will review and approve the indirect cost rates. Only allowable costs shall be included in the indirect cost pool. However, the cost of auditing the indirect cost rate, which is separate from the regular audit, shall be borne by the SDA.

(4) SUBGRANTEES. Division grantees, including both SDAs and non-SDAs, shall be responsible for approving any indirect cost rates or methods they wish to accept for their subgrantees. If the division has already accepted an agency rate or method, the grantee may automatically accept that rate:

**History:** Cr. Register, July, 1986, No. 367, eff. 8-1-86.

**DWD 805.05 Standards for selected items of cost.** This section provides principles to be applied in establishing the allowability of certain items of cost. These principles apply

whether a cost is treated as direct, joint or indirect. Failure to mention a particular item of cost is not intended to imply that it is unallowable; rather determination as to allowability in each case should be based on the treatment or principles provided for similar or related items of cost. In certain limited circumstances, the division may give written authorization to incur costs which would otherwise be unallowable, provided that such authorization would not be a violation of the act or regulations.

**(1) ACCOUNTING COSTS.** The cost of establishing and maintaining accounting and other information systems required for the management of JTPA programs is allowable. This includes costs incurred by central service agencies for those purposes.

**(2) ADVERTISING COSTS.** (a) "Advertising costs" means the costs of media services and associated costs. Media advertising includes magazines, newspapers, radio and television programs, direct mail, exhibits, and the like.

(b) The only advertising costs allowable are those which are solely for:

1. The recruitment of personnel required for JTPA;
2. The procurement of goods and services;
3. The disposal of surplus materials;
4. Specific requirements of JTPA; or
5. Participant and employer outreach.

**(3) AUDIT SERVICES.** The cost of audits contracted for by a grantee are allowable. However, these audits will only be accepted as substitutes for the division's audit requirements if prior approval from the division was obtained.

**(4) BONDING COSTS.** Costs of premiums for fidelity bonding for individuals who are directly involved with authorizing or processing JTPA financial transactions are allowable.

**(5) BUDGETING.** Costs incurred for the development, preparation, presentation, and execution of budgets are allowable. Costs for services of a central budget office are generally not allowable since these are general agency costs. However, where employees of the central budget office actively participate in the JTPA budget process, the cost of identifiable and documented services is allowable.

**(6) COMMUNICATION COSTS.** Costs incurred for telephone services, local and long distance telephone calls, telegrams, radiograms, postage and the like, are allowable. That portion of costs for installation of a new communications system which is necessitated by the addition or expansion of JTPA programs is allowable.

**(7) COMPENSATION FOR PERSONAL SERVICES.** (a) *General.* Compensation for personal services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under the grant agreement, including but not necessarily limited to wages, salaries, and supplementary compensation and benefits. The costs of such compensation are allowable to the extent that total compensation for individual employees:

1. Is reasonable for the services rendered;
2. Follows an appointment made in accordance with agency policy, state and local rules and laws, or other requirements, where applicable; and
3. Is determined and supported as provided in par. (d). Compensation for employees engaged in JTPA activities will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the agency. In cases where the kinds of employees required for the JTPA activities are not found in the other activities of the agency, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing agency competes for the kind of employees involved.

(b) *Fringe benefits.* Costs identified under subds. 1. and 2. are allowable to the extent that total compensation for employees is reasonable.

1. Employee benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, court leave, military leave, and the like, if they are provided pursuant to an established leave system, and if the cost thereof is equitably allocated to all related activities, including grant programs.

2. Employee benefits in the form of employers' contribution or expenses for social security, employees' life and health insurance plans, unemployment insurance coverage, worker's compensation insurance, retirement plans for staff, severance pay, and the like, provided such benefits are granted under established plans and are distributed equitable to grant programs and to other activities.

3. No JTPA funds may be used for contributions on behalf of any JTPA program participant to retirement systems or plans.

(c) The cost of paid leave may be charged in one of 2 ways:

1. If the leave system is fully funded, costs may be billed to the grant as funds are paid into the leave fund.

2. If the leave system is unfunded, costs may be billed to the grant as individuals take their paid leave. JTPA employees may not be treated differently from other employees. Agencies with unfunded systems should be aware of the unfunded liability that accumulates when staff does not take earned vacations.

(d) 1. Certain conditions require special consideration and possible limitations in determining costs under JTPA where amounts or types of compensation appear unreasonable. Among such conditions are the following:

a. Where compensation is made to members of nonprofit organizations, trustees, directors, associates, officers, or the immediate families thereof, determination should be made that such compensation is reasonable for the actual personal services rendered.

b. Any change in a grantee's compensation policy resulting in a substantial increase in the grantee's level of compensation will be examined carefully, particularly when it was concurrent with an increase in the ratio of JTPA grants to other activities of the grantee, or any change in the treatment of allowability of specific types of compensation due to changes in policy.

2. Payroll and distribution of time. Amounts charged to grants for personal services shall be based on payrolls documented and provided in accordance with generally accepted practices. Payrolls shall be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one cost objective shall be supported by appropriate cost distribution records. The method used shall produce an equitable distribution of time and effort, and:

a. Where time distribution reports are used, these reports shall reflect an after-the fact determination of the actual activity of each employee. Budget estimates determined before the services are performed, do not qualify as support for charges to grants.

b. Where time distribution reports are used, these reports shall be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, attesting that the distribution of activity represents an accurate statement of the actual work performed by the employee during the periods covered by the reports.

c. Regardless of the method used, each report shall account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.

d. Salaries and wages of employees used in meeting cost sharing or matching requirements on awards shall be supported in the same manner as salaries and wages claimed for reimbursement from granting agencies.

**(8) CONTINGENCY PROVISIONS.** Contributions to a contingency reserve or any similar provision made for events the occurrence

of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happening are unallowable. The term "contingency reserve" excludes self-insurance reserves, pension funds and reserves for normal severance pay.

**(9) CONTRIBUTIONS.** Contributions and donations of JTPA funds by the organization to other are unallowable.

**(10) DEBTS.** Bad debts, including losses, whether actual or estimated, arising from uncollectible accounts and other claims, are unallowable.

**(11) DEPRECIATION AND USE ALLOWANCES.** (a) Compensation for the use of buildings, other capital improvements, and equipment on hand may be made through use allowances or depreciation.

(b) The computation of use allowances or depreciation shall be based on the acquisition cost of the assets involved. Where actual cost records have not been maintained, a reasonable estimate of the original acquisition cost may be used in the computation. The acquisition cost of an asset donated to the organization by a third party shall be its fair market value at the time of the donation.

(c) The computation of use allowances or depreciation shall exclude:

1. The cost of the land;
2. The cost or any portion of the cost of buildings and equipment donated or otherwise borne directly or indirectly by the federal government irrespective of where title was originally vested or where it presently resides; and
3. Any portion of the cost of buildings and equipment contributed by or for the organization in satisfaction of a statutory matching requirement.

(d) Where the use allowance method is followed, the use allowance shall be computed in accordance with current federal guidelines.

(e) Where the depreciation method is followed, adequate property records shall be maintained and physical inventories shall be taken at least once every 2 years to ensure that assets exist and are usable. Any generally accepted method of computing depreciation may be used. However, the method of computing depreciation shall be consistently applied for any specific asset or class of assets for all affected programs and shall result in equitable charges considering the extent of the use of the assets for the benefit of such programs. Adequate depreciation records indicating the amount of depreciation taken each period shall also be maintained.

(f) When the depreciation method is used for a particular class of assets, no depreciation may be allowed on any such assets that would be viewed as fully depreciated. However, a reasonable use allowance may be negotiated for such assets if warranted after taking into consideration the amount of depreciation previously charged, the estimated useful life remaining at time of negotiation, the effect of any increased maintenance charges or decreased efficiency due to age, and any other factors pertinent to the utilization of the asset for the purpose contemplated.

**(12) DONATIONS.** (a) *Services received.* Donated or volunteer services may be furnished to an organization by professional and technical personnel, consultants, and other skilled and unskilled labor. The value of these services is not reimbursable either as a direct or indirect cost.

(b) *Goods and space.* Donated goods for example, expendable personal property or supplies, and donated use of space may be furnished to an organization. The value of the goods and space is not reimbursable either as a direct or indirect cost. However, depreciation or use allowances may be charged on donated assets in keeping with the provisions in sub. (11).

**(13) EMPLOYEE MORALE, HEALTH, AND WELFARE COSTS AND CREDITS.** The costs of in-house publications, health or first aid

clinics, infirmaries, recreational activities, employees' counseling services, and other expenses incurred in accordance with the grantee's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable. Such costs shall be equitably apportioned to all activities of the grantee. Income generated from any of these activities shall be offset against expenses.

**(14) ENTERTAINMENT COSTS.** Costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals, lodging, rentals, transportation, and gratuities are unallowable.

**(15) EQUIPMENT AND OTHER CAPITAL EXPENDITURES.** (a) Expenditures for equipment with a unit acquisition cost of \$500 or more but less than \$1,000 are allowable.

(b) Expenditures for equipment with a unit acquisition cost of \$1,000 or more are only allowable with the prior written approval of the division.

(c) All lease purchase agreements with a total unit acquisition cost of \$1,000 or more require the prior written approval of the division.

(d) Capital expenditures for land or buildings are only allowable with the prior written approval of the division.

(e) Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are only allowable with the prior written approval of the division.

(f) See sub. (11) for allowability of use allowances or depreciation on buildings, capital improvements, and equipment. Also, see sub. (37) for allowability of rental costs for land, buildings, and equipment.

**(16) EXHIBITS.** Costs of exhibits relating specifically to the grant programs are allowable.

**(17) FINES AND PENALTIES.** Costs of fines and penalties resulting from violations of, or failure of the grantee to comply with federal, state, and local laws and regulations are unallowable.

**(18) FOLLOWUP SUPPORTIVE SERVICES.** Costs for supportive services necessary to enable a participant to retain employment for a period not to exceed 6 months following completion of training are allowable.

**(19) FRINGE BENEFITS.** See compensation for personal services, sub. (7).

**(20) FUND RAISING.** Costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions, along with any indirect costs relating to those expenses, are unallowable. However, costs associated with the Private Industry Council's right to "solicit and accept contributions and grant funds (from other public and private sources)" as provided for in the JTPA section 103 (e) (2) are allowable.

**(21) GOVERNMENTAL EXPENSES.** The salaries and expenses, including meeting per diems, of the chief elected official of a unit of government and salaries and expenses of local governmental bodies, such as county supervisors, city councils, and school boards, are considered a cost of general local government and are unallowable. However, travel costs are allowable in accordance with the provisions in sub. (44). This restriction applies only to those individuals serving as representatives of governmental bodies.

**(22) IDLE FACILITIES AND IDLE CAPACITY.** The costs of idle facilities and idle capacity are allowable only with the prior written approval of the division.

**(23) INSURANCE AND INDEMNIFICATION.** (a) "Insurance" includes insurance which the grantee is required to carry, or which is approved under the terms of the grant and any other insurance which the grantee maintains in connection with the general con-

duct of its operations. This subsection does not apply to insurance which represents fringe benefits for employees.

(b) Costs of insurance required or approved and maintained pursuant to the grant other than audit exception insurance are allowable.

(c) Costs of other insurance maintained by the grantee in connection with the general conduct of its operations are allowable subject to the following limitations:

1. Types and extent of coverage shall be in accordance with grantee policy, sound business practice and the rates and premiums shall be reasonable under the circumstances.

2. Costs of insurance or of any provisions for a reserve covering the risk of loss or damage to government property are unallowable except to the extent that the grantee is liable for such loss or damage.

3. Provisions for a reserve under a self-insurance program approved by the grantor are allowable to the extent that types of coverage, extent of coverage, rates, and premiums would have been allowed had insurance been purchased to cover the risks.

4. Costs of insurance on the lives of trustees, officers, or other employees holding positions of similar responsibilities are allowable only to the extent that the insurance represents additional compensation. The cost of such insurance when the grantee is identified as the beneficiary is unallowable.

(d) Costs of insurance policies offering protection against debts established by the federal government, commonly called audit exception insurance, are unallowable.

(e) Costs of personal liability insurance for PIC members are allowable. Personal liability insurance for chief local elected officials and their support staff is an allowable cost if the following conditions are met:

1. The affected chief local elected officials provide evidence that their current general liability coverage, required as a standard cost to the general unit of local government which they represent, is insufficient to provide adequate protection for liability incurred as a result of their actions as public officials under JTPA; and

2. The affected chief local elected officials assure and certify that JTPA funds utilized for the purpose of purchasing personal liability insurance for themselves and their support staff does not and will not supplant local funds which otherwise would have been available to purchase such liability insurance; and

3. JTPA funds so authorized and utilized for the purchase of personal liability insurance for chief local elected officials their support staff or both may not exceed the cost of including local officials as other insureds under a private industry council personal liability insurance policy;

(f) Actual losses which could have been covered by permissible insurance through the purchase of insurance or a self-insurance program are unallowable unless expressly provided for in the grant, except:

1. Costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound business practice are allowable; and

2. Minor losses not covered by insurance, such as spoilage, breakage, and disappearance of supplies, which occur in the ordinary course of operations, are allowable.

**(24) INTEREST.** Costs incurred for interest, however represented, are unallowable, except that the cost of interest paid to an external party is allowable where associated with the following assets, provided the assets are used in support of sponsored agreements, and the total cost (including depreciation or use allowance, operation and maintenance costs, and interest) does not exceed the rental cost of comparable assets in the same locality:

(a) Buildings acquired or completed on or after July 1, 1982;

(b) Major reconstruction and remodeling of existing buildings completed on or after July 1, 1982.

(c) Acquisitions or fabrication of capital equipment completed on or after July 1, 1982, costing \$1,000 or more, with the prior written approval of the division.

**(25) INVESTMENT MANAGEMENT COSTS.** Costs of investment counsel and staff and similar expenses incurred solely to enhance income from investments are unallowable.

**(26) LEGAL FEES.** The cost of legal expenses required in the administration of grants is allowable. Legal services furnished by the chief legal officer of a unit of government, or staff, solely for the purpose of discharging general responsibilities as a legal officer are unallowable. Legal expenses for the prosecution of claims against the federal government, the division, or the state of Wisconsin are unallowable, except that costs to prosecute claims against the state or an agency of the state are allowable when the prosecution is for claims between a grantee and a state agency subrecipient.

**(27) LOSSES ON OTHER AWARDS.** Any excess of costs over income on any grant is unallowable as a cost of any other grant. This includes, but is not limited to, the organization's contributed portion by reason of cost sharing agreements or any underrecoveries through negotiation of lump sums for, or ceilings on, indirect costs.

**(28) MAINTENANCE AND REPAIR COSTS.** Costs incurred for necessary maintenance, repair, or upkeep of buildings and equipment, including government property unless otherwise provide for, which neither add to the permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition, are allowable. Costs incurred for improvements which add to the permanent value of the buildings and equipment or appreciably prolong their intended life shall be treated as capital expenditures in accordance with sub. (15).

**(29) MATERIALS AND SUPPLIES.** The costs of materials and supplies necessary to carry out a grant are allowable. Such costs should be charged at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received by the organization. Withdrawals from general stores or stockrooms should be charged at cost under any recognized and consistently applied method of pricing. Incoming transportation charges may be a proper part of material cost. Materials and supplies charged as a direct cost should include only the materials and supplies actually used for the performance of the grant, and due credit should be given for any excess material or supplies retained, or returned to vendors.

**(30) MEETINGS AND CONFERENCES.** Costs associated with the conduct of meetings and conferences, including the cost of renting facilities, meals, speakers' fees, and the like, are allowable when the meeting or conference is related to the grant program.

**(31) MEMBERSHIPS, SUBSCRIPTIONS, AND PROFESSIONAL ACTIVITY COSTS.** (a) Costs of the grantee's membership in civic, business, technical, and professional organizations are allowable, provided that:

1. The benefit from the membership is related to JTPA;

2. The expenditure is for grantee membership;

3. The cost of the membership is reasonably related to the value of the services or benefits received; and

4. The expenditure is not for membership in an organization which devotes a substantial part of its activities to lobbying.

(b) Costs of the grantee's subscriptions to civic, business, professional, and technical periodicals are allowable, when related to grant activities.

(c) Costs of attendance at meetings and conferences sponsored by others when the primary purpose is the dissemination of technical information, are allowable. This includes costs of meals, transportation, and other items incidental to such attendance. These costs must be consistent with regular practices followed for other activities of the grantee.

**(32) ORGANIZATION COSTS.** Expenditures, such as incorporation fees, brokers' fees, fees to promoters, organizers or management consultants, attorneys, accountants, or investment counselors, whether or not employees of the grantee, in connection with establishment or reorganization of a grantee, are allowable only with the prior written approval of the division, except that the costs of incorporating a PIC or consortium administrative entity for the purpose of carrying out programs under JTPA are allowable.

**(33) PREAWARD COSTS.** Costs incurred prior to the effective date of the grant or contract, whether or not they would have been allowable under the grant or contract if incurred after such a date, are allowable only with prior written approval of the grantor.

**(34) PROFESSIONAL SERVICE COSTS.** Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the grantee, are allowable.

**(35) PROPOSAL COSTS.** Costs incurred in preparing proposals for potential JTPA grant agreements are not allowable.

**(36) REARRANGEMENT AND ALTERATION COSTS.** Costs incurred for ordinary or normal rearrangement and alteration of facilities, and for special arrangement and alteration costs incurred specifically for the project, are allowable.

**(37) RENTAL COSTS.** (a) Subject to the limitations described in pars. (b) through (d), rental costs are allowable to the extent that the rates are reasonable in light of such factors as rental costs of comparable property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased.

(b) Rental costs under sale and leaseback arrangements are allowable only up to the amount that would be allowed had the grantee continued to own the property.

(c) Rental costs under less-than-arms-length leases are allowable only up to the amount that would be allowed had title to the property vested in the grantee. For this purpose, a less-than-arms-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other. Such leases include, but are not limited to those between

1. Divisions of a grantee agency;
2. Organizations under common control through common officers, directors, or members; and
3. A grantee and a director, trustee, officer, or key employee of the grantee or immediate family either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest.

(d) Rental costs under leases which create a material equity in the leased property, including any interest charges, are allowable only up to the amount which does not exceed rental costs of comparable assets in the same locality. For this purpose, a material equity in the property exists if the lease includes one or more of the following characteristics:

1. The grantee has the right to purchase the property for a price which at the beginning of the lease appears to be substantially less than the probable fair market value at the time it is permitted to purchase the property, commonly called a lease with a purchase option;
2. Title to the property passes to the grantee at some time during or after the lease period;
3. The initial term of the lease plus periods covered by any renewal options is equal to 75% or more of the economic life of the leased property. In this subparagraph, "economic life" means the period the property is expected to be economically usable by one or more users.

(e) Similar costs for buildings owned by an agency are allowable where "rental rate" systems, or equivalent systems that adequately reflect actual costs, are employed. Such charges must be determined on the basis of actual cost, including depreciation

based on the useful life of the building, interest paid or accrued, operation and maintenance, and other allowable costs. Where these costs are included in rental charges, they may not be charged elsewhere. No costs will be included for purchases or construction that were originally financed by the federal government.

**(38) SEVERANCE PAY.** Severance pay, also commonly referred to as dismissal wages, is a payment in addition to regular salaries and wages, by organizations to workers whose employment is being terminated. Costs of severance pay are allowable only to the extent that they are required by law, employer-employee agreement, established policy that constitutes, in effect, an implied agreement on the organization's part, or circumstances of the particular employment.

**(39) STAFF TRAINING AND EDUCATION.** The cost of training, customarily provided for employee development, which directly or indirectly benefits grant programs, is allowable.

**(40) SUPPORTIVE SERVICES.** Costs for services which a participant cannot otherwise afford, and which are necessary to enable a participant to take part in a Job Training Partnership Act program activity or retain employment, are allowable for a period not to exceed 6 months following termination from JTPA.

**(41) TAXES.** In general, taxes or payments in lieu of taxes which the organization is required to pay are allowable, except for:

- (a) Taxes from which exemptions are available.
- (b) Special assessments on land which represent capital improvements,
- (c) Federal income taxes, and
- (d) State income taxes.

**(42) TERMINATION COSTS.** Termination of grants generally give rise to the incurrence of costs, or the need for special treatment of costs, which would not have arisen had the grant not been terminated. Cost principles covering these items are set forth below. They are to be used in conjunction with the other provisions of this chapter in termination situations, depending on availability of funds.

(a) *Common items.* The cost of items reasonably usable in the grantee's other work are unallowable unless the grantee submits evidence that it would not retain such items at cost without sustaining a loss. In deciding whether such items are reasonably usable on other work of the grantee, the grantor should consider the grantee's plans and orders for current and scheduled activity. Contemporaneous purchases of common items by the grantee shall be regarded as evidence that such items are reasonably usable on the grantee's other work. Any acceptance of common items as allocable to the terminated portion of the grant shall be limited to the extent that the quantities of such items on hand, in transit, and on order are in excess of the reasonable quantitative requirements of other work.

(b) *Costs continuing after termination.* If in a particular case, despite all reasonable efforts by the grantee, certain costs cannot be discontinued immediately after the effective date of termination, such costs are generally allowable, but only up to the amount of the grant. However, any such costs continuing after termination due to the negligent or willful failure of the grantee to discontinue such costs shall be unallowable.

(c) *Loss of useful value.* Loss of useful value of special tooling, machinery and equipment which was not charged to the grant as a capital expenditure is generally allowable if:

1. Such special tooling, machinery, or equipment is not reasonably capable of use in the other work of the grantee.
2. The interest of the division is protected by transfer of title or by other means deemed appropriate by the grantor.

(d) *Rental costs.* Rental costs under unexpired leases are generally allowable where clearly shown to have been reasonably necessary for the performance of the terminated grant less the residual value of such leases, if

1. The amount of such rental claimed does not exceed the reasonable use value of the property leased for the period of the grant and such further period as may be reasonable, and

2. The grantee makes all reasonable efforts to terminate, assign, settle, or otherwise reduce the cost of such lease. There also may be included the cost of alterations of such leased property, provided such alterations were necessary for the performance of the grant, and of reasonable restoration required by the provisions of the lease.

(e) *Settlement expenses.* Settlement expenses including the following are generally allowable:

1. Accounting, legal, clerical, and similar costs reasonably necessary for:

a. The preparation and presentation to the grantor of settlement claims and supporting data with respect to the terminated portion of the grant, unless the termination is for default.

b. The termination and settlement of subgrants.

2. Reasonable costs for the storage, transportation, protection, and disposition of property provided by the division or acquired or produced for the grant; except when grantees are reimbursed for disposals at a predetermined amount.

**(43) TRANSPORTATION COSTS.** Transportation costs including freight, express, cartage, and postage charges relating either to goods purchased in process, or delivered are allowable.

**(44) TRAVEL COSTS.** (a) Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the grantee. Travel costs are allowable subject to pars. (b) through (d) when they are directly attributable to specific work under a grant.

(b) Such costs may be charged on an actual basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the 2, provided the method used results in charges consistent with those normally allowed by the grantee in its regular operations.

(c) The difference in cost between first-class air accommodations and less than first-class air accommodations is unallowable except when less than first-class air accommodations are not reasonably available.

(d) Notwithstanding the provision of sub. (21), travel costs of officials covered by those paragraphs when specifically related to grant programs, are allowable.

**History:** Cr. Register, July, 1986, No. 367, eff. 8-1-86.