



Jeb Bush
Governor
Susan Pareigis
Director

MEMORANDUM

DATE: July 23, 2004

TO: Regional Workforce Board Directors nee Directors

FROM: Kevin Thompson, Deputy Director L--

SUBJECT: **Final Guidance on Prepayment of Costs using Federal Grant Awards**

The attached guidance paper has been developed by the Agency for Workforce Innovation to assist regional workforce boards and other grant subrecipients determine if the prepayment of a cost is appropriate and allowable under federal guidelines. The guidance paper supersedes any previous memorandums regarding this subject issued by the Agency.

The guidance paper was developed in consultation with representatives of the regional workforce board executive directors and finance directors. We thank them for their time and efforts.

Please contact Mike Lynch at (850) 245-7431 or Laura McKinley at (850) 245-7388 if you need any assistance or have any questions regarding this guidance.

KT/ml

Agency for Workforce Innovation

The Caldwell Building, Suite I00L • I07 East Madison Street • Tallahassee • Florida 32399-4122

Phone 850-488-7228 • Fax 850-921-2253 • (TTY/TDD 1-800-955-8771- Voice 1-800-955-8770)

For more information go to www.myflorida.com

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Office of Issuance: AWI FG 04-043
Reference: Prepayment of Costs Using Federal or State Grant Awards

FINAL GUIDANCE Prepayment Of Costs

OF INTEREST TO:

Workforce Florida Inc., Regional Workforce Boards (RWB's), and other entities engaged in implementing federal and state workforce programs listed in Chapter 445, Florida Statutes.

SUBJECT:

The prepayment of costs using federal or state grant awards.

PURPOSE:

To define and describe when prepayment of costs is acceptable.

DEFINITIONS:

Prepayment: Payment for a good or service in advance of the receipt of that good or service.

BACKGROUND AND UNDERLYING FEDERAL POLICY:

Where a funding period is specified, a grantee (or sub grantee) may charge to the grant only **allowable costs / resulting from obligations / incurred during the funding period**, and any pre-award costs authorized by the awarding agency¹.

Allowable Costs:

Allowable costs are determined in accordance with the cost principles applicable to the organization incurring the costs. Most regional workforce boards are incorporated as nonprofit organizations and would follow OMB Circular A-122. Governmental organizations and Educational Institutions are governed by the following circulars:

State and Local Governments:

OMB Circular A-87

Educational Institutions

OMB Circular A-21

The OMB Circulars establish several factors that affect the allowability of costs including whether a cost is reasonable for the performance of the award and allocable to the award. OMB Circular A-122 defines reasonable costs as:

A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. The question of the reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions thereof which receive the preponderance of their support from awards made by Federal agencies. In determining the reasonableness of a given cost, consideration shall be given to:

- a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.*
- b. The restraints or requirements imposed by such factors as generally accepted sound business practices, arms length bargaining, Federal and State laws and regulations, and terms and conditions of the award.*
- c. Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the Federal Government.*
- d. Significant deviations from the established practices of the organization which may unjustifiably increase the award costs.*

OMB Circular A-122 defines allocable costs as:

- a. A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:*
 - (1) Is incurred specifically for the award.*
 - (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or*
 - (3) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.*
- b. Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award.*

Regarding cost allocation, note that equipment may be charged to the period in which the expenditure is incurred.²

Obligations

Obligations are the amounts of orders placed, contracts and grants awarded, services received and similar transactions during a given period that require payment by the recipient during the same or a future period³.

Funding Period

The funding period for a grant is specified in the Notice of Fund Availability (NFA) issued by AWI to the regional workforce board. For example, the funding period for Workforce Investment Act formula funds is a two year period, whereas the funding period for Welfare Transition funds is only a one year time period.

STATE GUIDANCE:

The applicable OMB Circulars must be followed when determining the allowability of a prepayment to a federal award. Prepayments should be evaluated on a “case by case” basis. Key questions to consider include, but are not limited to, the following:

- Is the prepayment the result of an obligation, as defined in the OMB Circulars that occurred during the funding period?
- Is the prepayment under the circumstances reasonable? (e.g., Is it ordinary and necessary? Is it a sound business practice?, etc.)
- Does the prepayment result in a reasonable allocation of costs to the Federal award(s) based on the benefit(s) received?

Sufficient documentation should be included in the financial files to justify a prepayment. Recommended documentation would include the following items:

- A description of the cost to be pre-paid and the grant program(s) to be charged for the cost along with applicable funding periods for the charged grants.
- The cost savings or other business rationale for making the prepayment.
- A description of the methodology used to allocate the cost among the various benefiting grant programs.
- The time period the pre-payment covers.

If you have questions or concerns regarding the allowability of a particular prepayment, please contact the AWI Contracts and Grants Office at (850) 245-7481.

AUTHORITY:

Workforce Investment Act, §184(a) (3)
OMB Circulars A-87, A-122, A-21, and A-110

Footnotes:

¹ OMB Circular A-110 PART C, Financial and Program Management, .28 (period of availability of funds).

² OMB Circular A-110 defines **Equipment** as “*tangible nonexpendable personal property including exempt property charged directly to the award having a useful life of more than one year and an acquisition cost of \$5000 or more per unit. However, consistent with recipient policy, lower limits may be established.*” OMB Circular A-122 states that “*When approved as a direct charge . . . , capital expenditures will be charged in the period in which the expenditure is incurred, or as otherwise determined appropriate by and negotiated with the awarding agency.*”

³ OMB Circular A-110 PART A, Definitions, .2(t).