

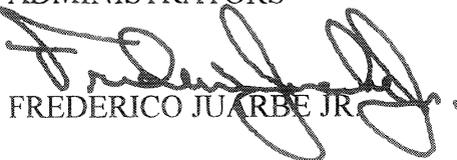


MAY 23 2005

VETERANS' PROGRAM LETTER 05-05

MEMORANDUM FOR: ALL REGIONAL ADMINISTRATORS AND DIRECTORS FOR  
VETERANS' EMPLOYMENT AND TRAINING  
ALL STATE WORKFORCE AGENCY (SWA)  
ADMINISTRATORS

FROM:

  
FREDERICO JUAREZ JR.

SUBJECT:

Direct and Indirect Charges to the Fiscal Year (FY) 2005-2009  
Jobs for Veterans State Grants

I. **Purpose:** To provide clarification on appropriate direct and indirect charges to the subject grants.

II. **References:** Title 38, Chapter 41 of the United States Code (38 U.S.C. 41) as amended by the Jobs for Veterans Act of 2002, Public Law (P.L.) 107-288, enacted November 7, 2002; Veterans' Program Letter (VPL) 03-04 dated April 16, 2004; and Office of Management and Budget (OMB) Circular A-87.

III. **Background:** The Workforce Investment Act (WIA) of 1998 established a new service delivery structure for WIA, Wagner-Peyser and other Department of Labor funded programs. While WIA did not alter the Disabled Veterans' Outreach Program (DVOP) and Local Veterans' Employment Representative (LVER) program, the employment service delivery system to which the veterans' programs are connected was changed.

P.L. 107-288 provided for additional flexibilities in the grants that support DVOP Specialists and LVER staff within the States under 38 U.S.C 41.

VPL 03-04 issued the Solicitation for Grant Application for the Jobs for Veterans State Grants for FY 2005-2009 to the States. This vehicle primarily provides funding for DVOP Specialists and LVER staff.

Due to significant changes in employment service delivery systems and 38 U.S.C. 41, numerous questions have surfaced regarding acceptable charges to the Jobs for Veterans' State Grants.

States' interpretations of direct, indirect, and appropriate allowable costs in each category may be inaccurate, particularly since States' accounting systems and protocols for expenditures differ.

A review of the Fiscal Year (FY) 2005-2009 Jobs for Veterans State Grant Plans, accomplished in August 2004, indicated some potential concerns neglected to identify, how the funds to be awarded under these grants were to be used.

**IV. Guidance and Technical Assistance:** VETS recognizes that significant changes have occurred in the employment service delivery system over the past few years. These changes have affected State management structures and overall funding available to assist all individuals seeking employment in the State. The primary purpose of the Jobs for Veterans State Grants still remains to provide dedicated staff to assist veterans  
Veterans State Grants also remain  
that support DVOP and LVER staff providing direct employment related assistance to veterans. These staff are funded to complement, not supplant, existing employment service delivery system staff such as Wagner-Peyser.

#### CHARGES FOR VETS FEDERAL STAFF LOCATED IN THE STATE

Since the inception of the Wagner-Peyser Act, the State Employment Security Agencies have been charging the rental of space and other support costs of the Director for Veterans' Employment and Training (DVET) and their Federal State-based staff to the Employment Security Account Appropriation of the Department of Labor. Previously, Title 38, U.S.C., Chapter 41, Section 4103(2) specifically attached VETS staff to the public employment service of the State to which they were assigned. Although Public Law 107-288 amended this section and it no longer addresses the issue, section 4107 of this title continues to provide equivalent authority. DVETs and their staff are the means established by the Secretary to provide the administrative control and technical assistance necessary to comply with the statute.

According to an informal survey, the majority of states allow their Wagner-Peyser grant to absorb the costs associated with providing VETS staff space in state offices. The Employment and Training Administration has concurred with VETS that such absorption is an acceptable practice and that it is the preferred method of funding such costs.

States that have made other arrangements for paying for these costs may continue to do so indefinitely, utilizing a "grandfather" concept. VETS believes that this is a practical approach considering the relatively small amount of costs involved, and the potential burden involved for each State's financial system if changes were mandated.

#### DIRECT COSTS

OMB Circular A-87, Attachment A, E, states:

*"Direct costs are those that can be identified specifically with a particular final cost objective."*

In the VETS' program, direct costs are those costs that can be directly related to individual DVOP specialist or LVER staff, such as:

- Personnel (personal services): salaries, wages, and overtime costs,
- Fringe Benefits (personnel leave, pension, and health care,
- Travel: program related costs such as those associated with traveling for outreach or to Veterans Affairs (VA) Chapter 31, homeless grantee and TAP locations,
- Equipment: an article of nonexpendable, tangible personal property having a useful life of more than one year (emphasis added) and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the governmental unit for financial statement purposes, or \$5,000,
- Supplies: consumable supplies and materials including paper, pens, and other equipment with a
- Other: program related staff training; Performance Awards and Incentives (pursuant to 38 U.S.C. Section 4112); special initiatives; supplies or equipment for a special support activity by DVOP or LVER staff; costs such as those normally expended through a cost pool formula set up within the State in which each program pays an established pro-rata share to the pool (facility rent and utilities, fax and copy machine usage, communication equipment usage, etc.).

Direct charges are a part of grant program operations. Allowability, allocability, and reasonableness, and the "benefits received" concept, as defined by OMB Circular A-87, must prevail. Also, common sense, logic and fairness should be considered when determining direct charges. Any direct charge for other than DVOP and LVER individual staff must be proportional to costs levied against all grants through which similar support is required.

For example, a Workforce Division Director who attends a DVOP/LVER conference or any other veteran related meeting as part of his or her duties should not charge salary to the Jobs for Veterans State Grants in any category. an unreasonable charge, because priority of service to veterans in all Department of Labor (DOL) funded programs is an inherent requirement in 38 U.S.C. 41.

### INDIRECT COSTS

OMB Circular A-87, Attachment A, F, states:

*“Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited...”*

Indirect costs are normally associated with the State’s central governmental services costs (or statewide costs) and the State agency’s administration and management costs that received the Federal award. These costs are allocated to all programs within the State Workforce Agency through an approved indirect cost rate or cost allocation plan.

Indirect costs also cover basic administrative services such as human resources, budget, fiscal and accounting, information technology, legal and administrative support, Commissioners, Directors and other hierarchy, facilities and buildings, supplies and other staff that are basic State agency costs for support services to the Jobs for Veterans State Grants.

Each State should develop its indirect cost rate or cost allocation plan necessary to meet the requirements associated with writing, processing, and administering the grants. An indirect cost rate proposal/cost allocation plan should be submitted to and approved by the cognizant Federal agency<sup>1</sup>. If the U.S. Department of Labor is cognizant, indirect cost rate proposals or cost allocation plans should be submitted for review and approval to the following address:

Division of Cost Determination (DCD), USDOL  
200 Constitution Avenue, N.W., S-1510  
Washington, D.C. 20210  
Tel: 202-693-4100

DCD is available in the internet at the following web address:

<http://www.dol.gov/oasam/programs/boc/costdeterminationguide/main.htm>

### **CLASSIFICATION OF DIRECT AND INDIRECT COSTS**

OMB Circular A-87, Attachment A, D, states:

*Classification of costs. There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost be treated consistently in like circumstances either as a direct or an indirect cost.*

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<sup>1</sup> According to OMB Circular A-87: “Cognizant agency” means the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under this Circular on behalf of all Federal agencies.

The “cognizant agency” should be Federal agency providing the preponderance of Federal funds to the State.

Due to the variety of acceptable accounting practices, some charges may be classified as either direct, indirect, or combination of both depending on each State's accounting practices. In any case, these charges should be explained in detail with justification in the State plan.

Special emphasis should be given to support for salaries and wages charged to the Jobs for Veterans State Grants programs. OMB Circular A-87, Attachment B, states:

*h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.*

*(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.*

*(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity (emphasis added).*

*(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.*

*(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:*

*(a) More than one Federal award,*

*(b) A Federal award and a non Federal award,*

*(c) An indirect cost activity and a direct cost activity,*

*(d) Two or more indirect activities which are allocated using different allocation bases, or*

*(e) An unallowable activity and a direct or indirect cost activity.*

(5) *Personnel activity reports or equivalent documentation must meet the following standards:*

- (a) *They must reflect an after the fact distribution of the actual activity of each employee,*
- (b) *They must account for the total activity for which each employee is compensated,*
- (c) *They must be prepared at least monthly and must coincide with one or more pay periods, and*
- (d) *They must be signed by the employee.*

(6) *Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.*

In light of the above A-87 guidance, some examples that could be charged as direct or indirect costs follow:

- To cover the supervisors and managers who directly supervise the DVOP and LVER staff at the State Central Office or at a Field Office. These costs are normally direct costs if those managers work 100% supervising the DVOP and LVER staff only.
- To cover administrative staff who provide personnel support to the DVOP and LVER staff at the State Central Office or at a Field Office. This would include processing time sheets, vacation, sick leave, promotions, merit raises, preparing evaluations, travel vouchers, information technology programming, etc. associated with maintaining the DVOP and LVER staff. These costs are normally indirect costs if the administrative staff provides support also to other programs including VETS. The salary costs could also be charged as a combination of direct/indirect costs thru an approved timekeeping system as indicated in OMB Circular A-87.

In addition to salaries and wages, another example of costs that could be charged direct or indirect is training costs:

- Training to individual DVOP and LVER staff exclusively could result in direct charges. However, if the training is Wagner-Peyser or other program topic associated training that benefits the system versus an individual DVOP or LVER, then, it would be paid by that particular grant. Conversely, training related to more than one program, such as Human resources, fiscal, information technology, or other employee-related training, should be covered by the indirect cost rate or cost allocation plan. Therefore, any additional

training costs directly charged would have to be described in detail and fully justified and documented, so the grant is not charged twice for the same service. VETS separately funds training provided by the National Veterans' Training Institute (including transportation, lodging, and meals), so these expenses cannot be charged to the Jobs for Veterans State Grants. Local transportation and parking expenses are allowable travel charges.

Please note that in each of these examples the cost is to cover essential, required support provided to individual DVOP Specialists and LVER staff.

### **EXAMPLES OF UNALLOWABLE COSTS**

The Jobs for Veterans State Grant is provided to each State for assigning or appointing DVOP and LVER staff to assist veterans seeking employment. Allowable costs to the grant are those levied to support the DVOP and LVER staff in their mission. Grant funds are not allowed to provide or pay for any costs directly to or for clients.

Some examples of unallowable direct or indirect charges are expenditures for goods and services for personal use, purchase of real property, purchase of alcoholic beverages, fund raising expenses, advertising costs, penalty payments, and payments against bad debt. These examples serve as general guidance, but should not be construed to be all encompassing as the only examples of inappropriate charges. Additional guidance on inappropriate charges can be found in OMB Circular A-87, Attachment B.

**V. Explanation of Fiscal Practices:** All costs associated with each program and fiscal category need to be adequately explained, with the rationale for including costs as direct or indirect charges to the grants. States may articulate administrative, management and supervisory system and costs required to direct in the indirect cost category.

Upon approval of the State Plan by the Grant officer, the plan becomes the basic agreement for staffing and fiscal operation. States that have an existing plan that do not meet the requirements outlined in this program letter VETS directives are required to submit a grant modification that explains in sufficient detail all intended and actual charges to the Jobs for Veterans State Grants. States falling into this category will be notified individually.

### **VI. Actions Required:**

- A. State Workforce Agencies should check their current fiscal and indirect cost rates/cost allocation plans to ensure that the charges planned and or posted to the Jobs for Veterans State Grants for FY 2005 are valid and follow the guidance provided in this VPL. Any changes to the FY 2005-2009 plan should be completed and submitted to the Directors for Veterans' Employment and Training (DVET) within 30 days of the date of

this VPL, particularly when notified by VETS of any deficiencies which need immediate correction.

- B. Regional Administrators for Veterans' Employment and Training (RAVETs) are responsible for ensuring that DVETs review the fiscal and indirect cost rates/cost allocation plan in the State's current Jobs for Veterans State Grants plan to determine if any item(s) need additional explanation or correction. If corrections or additional information is required, DVETs should meet with their State Workforce Agency as soon as feasible to determine the appropriate action and assist the State in meeting the 30 day time limit as stated above. The DVET will offer technical assistance with the modification, provide support as warranted, and negotiate costs where applicable.
- C. Any changes, revisions or corrections negotiated in a State's financial plan should be submitted by the State through the DVET to the RAVET and forwarded by the RAVET to Chief, Division of Employment and Training Programs at (202-693-4708) with a copy to the Chicago Lead Center as soon as feasible and in accordance with the current guidance on grant modification requests.
- D. In addition, the DVET should notify the RAVET of any deficiency that could be serious enough to warrant provisional approval of the yearly modification for FY 2006. The RAVET will advise the National Office to ensure the Grant Officer provides a provisional award of FY 2006 Jobs for Veterans State Grant funds.
- E. During the course of the year, DVETs are responsible for monitoring their State's direct and indirect charges and analyzing them to ensure compliance with the policies and guidance contained in this VPL. Actual monthly/quarterly grant charges should compare favorably to financial planning worksheets for awarded grants.

**VII. Inquiries:** States may address questions regarding this VPL to their DVET. DVETs or other VETS staff with questions should contact their RAVET. RAVETs may contact the Chief, Division of Employment and Training Programs at 202-693-4708 or via email at [langley.pamela@dol.gov](mailto:langley.pamela@dol.gov).

**VIII. Expiration Date:** Until rescinded or superseded.