



COUNTY OF LOS ANGELES
DEPARTMENT OF ECONOMIC
OPPORTUNITY

department
of economic
opportunity
COUNTY OF LOS ANGELES

REGULATORY COMPLIANCE
DIRECTIVE

DATE: October 29, 2024

NUMBER: RCD 24-01

COST PRINCIPLES AND ALLOWABLE COSTS

EXECUTIVE SUMMARY

This directive provides guidance regarding the general cost principles and allowable costs for the administration of all subawards awarded by the Los Angeles County Department of Economic Opportunity (DEO). It requires that all subrecipients expending DEO awarded funds shall comply with this guidance.

This Directive supersedes CD-15-14 Cost Principles and Allowable Costs, dated August 25, 2015.

REFERENCES

- WIOA (Public Law 113-128) Sections 184(a)(3), 134(c)-(d), 129, and 195
- Title 2 Code of Federal Regulations (CFR) Part 200: "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" (Uniform Guidance)
- Title 2 CFR Part 2900: "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" (Department of Labor [DOL] Exceptions)
- Title 21 United States Code (USC) Section 812
- Training and Employment Guidance Letter (TEGL) 15-14, Subject: Implementation of the
- New Uniform Guidance Regulations (December 19, 2014)
- CA Employment Development Department (EDD) Workforce Services Directive WSD16-16 Allowable Costs and Prior Written Approval

BACKGROUND

On December 26, 2013, the Office of Management and Budget (OMB) issued the [Uniform Guidance](#), 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 DOL adopted the OMB Uniform Guidance and issued [DOL Exceptions](#). For more information on

Uniform Guidance implementation, please see [TEGL 15-14](#).

On April 22, 2024, the Office of Management and Budget (OMB) revised the Uniform Administrative Requirements streamlining and clarifying requirements for Federal funding.

DEFINITIONS

Direct costs - those costs that can be identified specifically with a particular final cost objective, such as a subaward or subcontract, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.

Indirect Cost means those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.

Subaward means an award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of a Federal award received by the pass-through entity. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract.

Subrecipient - An entity that receives a subaward from a pass-through entity to carry out part of an award; but does not include an individual that is a beneficiary of such award. A subrecipient may also be a recipient of other awards directly from a federal, state, or local awarding agency.

POLICY AND PROCEDURES

Uniform Guidance provides general principles and guidance on selected items of cost identifying allowable and unallowable costs. However, if more restrictive subaward guidelines exist, they take precedence.

It is the responsibility of the subrecipient to review not only the principles set forth in 2 CFR 200.400-200.475, but the entity's subaward document, regulations, and laws applicable to the program being administered. No one particular set of guidance can be taken out of context from all guidance applicable to a subaward.

Factors Affecting Allowability of Costs

Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable:

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

- Be necessary and reasonable for the performance of the subaward.
- Be allocable to the subaward.
- Conform to any limitations or exclusions set forth in the subaward.

- Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the entity.
- Be accorded consistent treatment with other expenditures of the entity.
- 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).
- Be adequately documented.

Expenditure of federal funds is only allowable for those activities permitted by federal statute or regulations. For Workforce Innovation and Opportunity Act (WIOA) funded subawards 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.

Attachment I presents a high-level matrix listing various cost items referenced in Uniform Guidance Sections 200.420 through 200.476. 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, and whether prior approval is required. Subrecipients can use the matrix as an initial tool, rather than the final authority, to determine whether a cost is allowable or not.

Reasonableness of Costs

A cost is reasonable if, in its nature and 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 cost. In determining reasonableness of a given cost, consideration must be given to:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the entity or the proper and efficient performance of the subaward.
- The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, and other laws and regulations; and terms and conditions of the subaward.
- Market prices for comparable goods or services for the geographic area.
- Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the subrecipient.
- Whether the entity significantly deviated from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the subaward's cost.

Allocable Costs

A cost is allocable to a subaward or other cost objective if the goods or services involved are chargeable or assignable to that subaward or cost objective in accordance with relative benefits received. This standard is met if the cost:

- Is incurred specifically for the subaward;
- Benefits both the subaward/subcontract and other work of the subrecipient and can be distributed in proportions that may be approximated using reasonable methods; and

- Is necessary to the overall operation of the entity and is assignable in part to the subaward in accordance with the principles set forth in 2 CFR 200.400-200.475.

All activities which benefit from the entity's indirect cost, including unallowable activities and donated services will receive an appropriate allocation of indirect costs.

Any cost allocable to a particular subaward may not be charged to other subawards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the subaward, or for other reasons.

There is no universal rule for classifying certain costs as direct or indirect costs. A cost may be direct for some specific service or function but indirect for the subaward or other final cost objective. Therefore, each cost incurred for the same purpose in like circumstances must be treated consistently either as a direct or an indirect cost to avoid possible double-charging of subawards. Guidelines for determining direct and indirect costs charged to Federal awards are provided in 2 CFR 200.412-200.414.

Applicable Credits

Applicable credits refer to transactions that offset or reduce direct or indirect costs allocable to the subaward. Examples of such transactions are purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the subrecipient relate to allowable costs, they must be credited to the subaward either as a cost reduction or cash refund, as appropriate.

In some instances, the amounts received from the subaward to finance activities or service operations of the subrecipient should be treated as applicable credits. Specifically, the concept of netting such credit items (including any amounts used to meet cost sharing requirements) must be recognized in determining the rates or amounts to be charged to the subaward.

Limitation on Allowance of Cost

Statutory requirements may limit the allowability of costs. Any costs that exceed the maximum amount allowed by statute may not be charged to the subaward. Only the amount allowable by statute may be charged to the subaward.

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. These costs include, but are not limited to, equipment purchases over \$5000, pre-award expenditures, rearrangements of building space. To determine which costs require prior approval, please refer to Cost Items Matrix (Attachment I).

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.

Prior Written Approval Procedures

Subrecipients must submit a request, along with all necessary supporting documentation, to County's Contract Manager at DEO-CMD@opportunity.lacounty.gov. DEO will review the request and either approve or disapprove the request. DEO may forward the request to the State funding source for final approval, if applicable. The subrecipient will receive a notification providing approval or denial of their request. Written approval must be received prior to the cost being incurred, unless otherwise directed by DEO.

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

- 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 and regulations.
- Conforms to any limitations or exclusions of cost item types or amounts, as set forth in the Uniform Guidance, federal law, subaward, or other governing regulations.
- Is consistent with applicable policies, regulations, and procedures.

ACTION

Subrecipients must ensure that the requirements described herein are communicated throughout the operations, management, and governance structure of their respective organizations and that this Directive is adhered to until further notice.

INQUIRIES

Inquiries regarding this directive and the policies and procedures described herein should be directed to compliance@opportunity.lacounty.gov.



**Irene Pelayo, Program Manager
Regulatory Compliance Division**

Attachments:

Attachment I – [Cost Items Matrix](#)