

**Alabama Workforce Investment System**

**Alabama Department of Economic and Community Affairs  
Workforce Development Division  
401 Adams Avenue  
Post Office Box 5690  
Montgomery, Alabama 36103-5690**

September 4, 2002

**GOVERNOR'S WORKFORCE DEVELOPMENT DIRECTIVE NO. PY2002-01, Chge. 1**

**SUBJECT:** Training and Employment Guidance Letter (TEGL)

1. **Purpose.** This transmits the following TEGL:

<u>Number</u>	<u>Date</u>	<u>Subject</u>
6-02	8/21/02	Guidance on the Recovery of Indirect Costs

2. **Background.** TEGL No. 6-02 establishes uniform procedures for state workforce agencies (SWAs) on the preparation, submission, and approval of indirect cost rate proposals and/or cost allocation plans. USDOL's Office of Cost Determination (OCD) is responsible for review and approval of indirect cost rate proposals and cost allocation plan proposals for which USDOL is cognizant.

TEGL No. 6-02 indicates that, in order for a SWA to claim indirect costs incurred on or after July 1, 2003, under a federal grant, contract, or cooperative agreement, the indirect costs must be contained in a cost allocation plan and/or indirect cost rate proposal developed in accordance with the requirements of OMB Circular A-87 and approved by the SWA's cognizant federal agency.

3. **Information.** Copies of TEGL No. 6-02 are provided for your informational and potential action purposes.
4. **Contact.** Please direct any questions or requests for technical assistance regarding the development of cost allocation plans and/or indirect cost rate proposals to the USDOL Regional Office.

  
Steve Walkley, Division Director  
Workforce Development Division

Attachment

<b>Employment and Training Administration</b> <b>Advisory System</b> U.S. Department of Labor Washington, D.C. 20210	<b>CLASSIFICATION</b> Indirect Costs
	<b>CORRESPONDENCE SYMBOL</b> OFAM
	<b>DATE</b> August 21, 2002

**TRAINING AND EMPLOYMENT GUIDANCE LETTER NO. 6-02**

**FROM:** EMILY STOVER  
 DeROCCO  
 Assistant Secretary

**SUBJECT:** Guidance on the Recovery of Indirect Costs

1. **Purpose.** To establish uniform procedures for state workforce agencies (SWAs) on the preparation, submission, and approval of indirect cost rate proposals and/or cost allocation plans.
2. **Authorities and References.** Office of Management and Budget (OMB) Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments (revised August 29, 1997); 29 CFR 97.20, Standards for Financial Management Systems (Governmental Organizations); Department of Health and Human Services ASMB C-10, Implementation Guide for OMB Circular A-87.
3. **Background.** Federal grantees are required to submit cost allocation plans and/or indirect cost rate proposals annually to their federal cognizant agencies for approval. See Circular A-87, Attachment E, Section D, Submission and Documentation of Proposals, for the current statement of this requirement. DOL's Office of Cost Determination (OCD) is responsible for review and approval of indirect cost rate proposals and cost allocation plan proposals for which DOL is cognizant.

In 1968, ETA developed the State Employment Security Agency Cost Accounting System (SESACAS), in cooperation with the states. SESACAS was designed as a system that state employment security agencies (SESAs) could use to meet their own accounting and financial management needs, and to produce reports that would satisfy DOL reporting requirements. Beginning in 1969, policies and procedures issued in ETA Handbook No. 362, The SESA Cost Accounting System Handbook, allowed SESAs to submit annual certifications of indirect cost allocation methods (waiver requests) to OCD in lieu of submitting indirect cost rate proposals and supporting documentation. The certification attested that the SESA was using the SESACAS and complying with its procedures. In 1988, ETA ceased direct financial and

technical support of SESACAS. At about the same time, a large group of SESAs jointly underwrote the development of a new cost accounting system, called the Financial Accounting

RESCISSIONS	EXPIRATION DATE
	Continuing

and Reporting System (ICESAFARS or FARS), under the auspices of the Interstate Conference of Employment Security Agencies. OCD extended its annual SESACAS certification procedures to the ICESA/FARS accounting system, which permitted SESAs to continue to charge indirect costs to ES and UI grants without having to submit an indirect cost rate proposal to OCD each year.

Due to the variety of accounting systems available to and adopted by SESAs in recent years, ETA agrees with OCD's determination to discontinue SESACAS and FARS certification (waiver request) procedures, and only approve indirect cost/cost allocation proposals that are in full compliance with OMB Circular A-87 requirements.

**4. Policy.** In order for a SWA to claim indirect costs incurred on or after July 1, 2003, under a federal grant, contract, or cooperative agreement, the indirect costs must be contained in a cost allocation plan and/or indirect cost rate proposal developed in accordance with the requirements of OMB Circular A-87 and approved by the SWA's cognizant federal agency.

**5. Action Required.** SWAs claiming indirect costs incurred on federal grants, contracts, and cooperative agreements are required to develop and submit cost allocation plans and/or indirect cost rate proposals to the Office of Cost Determination or other cognizant federal agency in accordance with OMB Circular A-87 and this TEGL. Required documentation for cost allocation plans and indirect cost rate proposals is described in Circular A-87 and ASMB C-10. SWAs should pay special attention to Attachments C and E of Circular A-87. OMB Circular A-87 is available on the Internet at <http://www.whitehouse.gov/omb/circulars/a087/a087-all.html> and ASMB C-10 is available at [www.hhs.gov/grantsnet/state/asmbc10.pdf](http://www.hhs.gov/grantsnet/state/asmbc10.pdf).

If DOL is the cognizant agency for SWA indirect costs, the SWA shall prepare and submit indirect cost/cost allocation proposals to OCD annually for state fiscal years beginning on or after July 1, 2003. If a SWA expects to be unable to prepare and negotiate an indirect cost agreement by this date, or has already submitted its proposal, OCD is prepared to grant an extension to the beginning of the state's next fiscal year upon receipt of a written request that explains why an extension is needed. If the DOL is not the cognizant agency, the SWA shall request instructions for the preparation of indirect cost proposal(s) from the cognizant federal agency.

**6. Inquiries.** Questions and requests for technical assistance concerning the development of cost allocation plans and/or indirect cost rate proposals should be directed to your Regional Cost Negotiator. The Office of Cost Determination's negotiators' addresses and telephone numbers are available on the Internet in Appendix V of the Indirect Cost Rate Determination Guide for Non-profit Organizations at <http://www.dol.gov/oasam/programs/guide.htm>.