**Section 2630.110 Principles for Determining Costs**

a) Purpose and scope.

1) Objectives. This section sets forth principles for determining the allowable costs of programs administered by the State and by grantees under the JTPA. These principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of Federal, State, or local participation in the financing of a particular grant. They are designed specifically to enable the Governor of the State of Illinois to meet requirements contained in 20 CFR 629.40 and 629.37(c) published on March 15, 1983, wherein the Governor is required to issue guidelines on allowable costs for SDA's and statewide programs under the Act. Furthermore, these principles are designed to provide that assisted programs bear their fair share of costs recognized under these principles, except where restricted in this Part, in Federal regulations, or in Federal law. Additionally, these principles remove the detailed administrative requirements of similar Federal circulars to permit the flexibility of State authorities intended by the Act.

2) Policy Guides. The application of these principles is based on the fundamental premises that:

A) State and grantee organizations are responsible for the efficient and effective administration of grant programs through the application of sound management practices.

B) Each grantee or subgrantee assumes the responsibility for seeing that program funds have been expended and accounted for consistent with underlying agreements and program objectives.

C) Each grantee or subgrantee organization, in recognition of its own unique combination of staff facilities and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to secure proper and efficient administration.

3) Application. These principles will be applied by the Illinois Department of Commerce and Community Affairs in determining costs incurred by the State and by grantees under the JTPA. Publicly financed educational institutions will, until further notice, exercise cost determination in a manner consistent with principles set forth in Office of Management and Budget (OMB) Circular A-21: Cost Principles for Educational Institutions (44 FR 12368, March 6, 1979, revised at 47 FR 33659, August 3, 1982 and 51 FR 20908, June 9, 1986). However, State rules will prevail, where provisions of this Part conflict with those found in OMB Circular A-21. Copies of OMB Circular A-21 are available from the Illinois Department of Commerce and Community Affairs.

b) Basic guidelines.

1) Factors affecting allowability of costs. To be allowable under the JTPA program, costs must meet the following general criteria:

A) Be necessary and reasonable for proper and efficient administration of the grant program, be allocable thereto under these principles, and, except as specifically provided in this Section, not be a general expense required to carry out the overall responsibilities of the State or of grantees.

B) Be authorized or not prohibited under the Act.

C) Conform to any limitations or exclusions set forth in the Act or other governing limitations as to types or amounts of cost items.

D) Be awarded consistent treatment through application of generally accepted accounting principles appropriate to the circumstances as contained in Section 164 (a)(3) of the Act.

E) Not be allocable to or be included as a cost of any other assisted program in either the current or a prior period.

2) Allocable costs.

A) A cost is allocable to a particular cost objective to the extent of benefits received by such objective.

B) Any cost allocable to a particular grant or cost objective under the principles provided for in this Part may not be shifted to other Federal or State grant programs to overcome fund deficiencies, avoid restrictions imposed by the Act or grants, or for any other reasons.

C) Where an allocation or joint cost will ultimately result in charges to a grant program, an allocation plan will be required as prescribed in Section 2630.111 of this Part.

3) Applicable credits. Applicable credits refer to those receipts or reduction of expenditure-type transactions which offset or reduce expense items allocable to grants as direct or indirect costs. Examples of such transactions are: purchase discounts; rebates or allowances; recoveries or indemnities on losses; sale of publications, equipments, and scrap; income from personal or incidental services; adjustments of overpayments or erroneous charges; and tax refunds.

c) Composition of cost.

1) Total cost. The total cost of a grant program is comprised of the allowable direct costs, plus its allocable portion of allowable indirect costs, less applicable credits.

2) Classification of costs.

A) A cost may be direct with respect to some specific service or function, but indirect with respect to the grant or other ultimate cost objective. It is essential, therefore, that each item of cost be treated consistently either as a direct or an indirect cost. The State shall impose no universal rule for classifying certain costs as either direct or indirect.

B) Specific guidelines to assist grantees in determining direct and indirect costs allocable under grant programs are provided in the subsections which follow.

d) Direct costs.

1) General. Direct costs are those that can be identified with a particular project, activity, or cost objective. These costs may be charged directly to grants and programs against which costs are finally lodged or they may be directly assigned to cost objectives (pools) used for the accumulation of actual joint costs pending the ultimate distribution to grants and other cost objectives.

2) Application. Identification with the grant work rather than the nature of goods and services involved is the determining factor in distinguishing direct from indirect costs. The cost of goods, services, or facilities supplied by other departments to the grantee department (normally thought of as indirect or joint costs) may be included as direct costs provided such items are consistently treated, in like circumstances, by the grantee department as direct rather than indirect costs, are charged under a recognized method of computing actual costs, and conform to generally accepted accounting practices consistently followed by the grantee. The direct allocation method for certain joint costs is prescribed in Section 2630.111 of this Part. Typical direct costs chargeable to JTPA grant programs are:

A) Compensation and fringe benefits of employees for the time and effort devoted to the execution of grant programs.

B) Cost of materials acquired, consumed, or expended for the purpose of the grant.

C) Equipment and other capital expenditures.

D) Cost of tuition, educational, and training supplies.

E) State and local credit hour support for JTPA-related courses.

F) Unemployment insurance benefits for JTPA participants.

G) OJT expenses incurred by the grantee and employer.

H) Services furnished for the grant program by other agencies, provided such charges are consistent with criteria outlined in Section 2630.110(e) of this Part.

e) Indirect costs.

1) General. Indirect costs are those incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. The term "indirect costs" as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities, to the grantee department. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a grantee department or in other agencies providing services to a grantee department. Indirect cost pools should be distributed to benefiting cost objectives on bases which will produce an equitable result in consideration of relative benefits derived.

2) Criteria for distribution.

A) Base period. A base period for distribution of indirect costs is the period during which such costs are incurred and accumulated for distribution to work performed within that period. The base period normally should coincide with the fiscal year established by the institution or agency, but in any event the base period should be so selected as to avoid inequities in the distribution of costs.

B) Cost groupings. The overall objective of the allocation and apportionment process is to distribute the indirect costs described in Section 2630.110(e)(1) of this Part to activities in reasonable proportions consistent with the nature and extent of the use of the institution's or agency's resources by such activity personnel. In order to achieve this objective, it may be necessary to provide for selective distribution by establishing separate groupings of cost within one or more of the functional categories of indirect costs referred to in Section 2630.111(a) and (b) of this Part. In general, the cost groupings established within a functional category should constitute, in each case, a pool of those items of expense that are considered to be of like character in terms of their relative contribution to (or degree of remoteness from) the particular cost objectives to which distribution is appropriate. Each such pool or cost grouping should then be distributed individually to the appertaining cost objectives, using the distribution base or method most appropriate in the light of the guides set out in Section 2630.110(e)(2)(C).

C) Selection of distribution method.

i) Actual conditions must be taken into account in selecting the method or base to be used in distributing to applicable cost objectives the expenses assembled under each of the individual cost groupings. Where a distribution can be made by assignment of a cost grouping directly to the area benefited, the distribution should be made in that manner. Where the expenses under a cost grouping are more general in nature, the distribution to "appertaining" cost objectives should be made through use of a selected base which will produce results that are equitable to both the State and the grantee. In general, any cost element or cost-related factor associated with the institution's or agency's work is potentially adaptable for use as a distribution base provided that it can be readily expressed in terms of dollars or other quantifiable measure (total direct expenditure, direct salaries, man-hours applied, square feet utilized, hour of usage, number of documents processed, population served, and the like); and that it is common to the appertaining cost objectives during the base period.

ii) Results of cost analysis studies may be used when they result in more accurate and equitable distribution of costs. Such cost analysis studies may take into consideration weighing factors, population, or space occupied if they produce equitable results. Cost analysis studies, however, should be appropriately documented in sufficient detail for subsequent review by the Department of Commerce and Community Affairs as described in Section 2630.113; distribute the indirect costs to the appertaining cost objectives in accord with the relative benefits derived; be conducted to fairly reflect the true condition of the activity and to cover representative transactions for a reasonable period of time; be performed specifically at the institution or agency at which the results are to be used; and be updated periodically and used consistently. Any assumptions made in the study will be sufficiently supported. The use of cost analysis studies and periodic changes in the method of cost distribution must be fully explained.

iii) The essential considerations in the selection of the distribution in each instance are that it be the one best suited for assigning the pool of costs to appertaining cost objectives in accord with the relative benefits derived; and that there be a traceable cause and effect relationship, or logic and reason where neither a benefit nor a cause and effect relationship is determinable.

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