Workforce Services Guidance – Correcting Disallowed Costs - WIOA

Effective Date: January 22, 2018
Duration: Indefinite

Subject:
Disallowed costs are those charges to a Federal award that the Federal awarding agency or pass-through entity determines to be unallowable, in accordance with the applicable Federal statutes, regulations, or the terms and conditions of the Federal award (2 CFR 200.31).

Purpose:
This document provides guidance to subrecipients to correct disallowed costs found during Program Accountability Review (PAR) monitoring.

Scope:
Adult Education (AE), American Job Center (AJC), American Job Center Operator (AJC Operator), American Job Center Access Point (AJC Access Point), Chief Local Elected Official (CLEO), Division of Workforce Services (WFS), Local Workforce Development Areas (LWDAs), Local Workforce Development Boards (LWDBs), Local Chief Elected Officials (CLEOs), Office of the Governor, Office of Registered Apprenticeship (RA), Rehabilitation Services (RS), Regional Council (RC), State Workforce Development Board (SWDB), Tennessee Department of Economic and Community Development (TDECD), Tennessee Department of Education (TDOE), Tennessee Department of Human Services (TDHS), Tennessee Department of Labor and Workforce Development (TDLWD), Tennessee Eligible Training Providers (TETPs), Workforce Innovation and Opportunity Act (WIOA), Workforce System Subrecipients (Subrecipients), Workforce System Partners (Partners)
Instruction:
The following steps must be taken to ensure that all disallowed costs have been corrected, especially in the event that PAR finds errors while conducting monitoring or audits.

I. Are the disallowed costs against an open contract?
   If the answer is yes, complete steps 1-3 outlined below:
   1) An entry must be made by the subrecipient on their accounts to remove the disallowed cost(s) from the contract expenses; this disallowed cost must be moved to local unrestricted funds.
   2) The next drawdown request for the contract will need to be reduced by the amount of the disallowed costs, thus returning the funds to the Federal grant.
   3) A copy of the removal of the disallowed cost, along with supporting documentation, and a copy of the drawdown request where the funds were reduced by the disallowed costs will need to be provided by the subrecipient to the Grants and Budgets Director at TDLWD; these documents will serve as verification that the disallowed costs have been corrected.

II. Are the disallowed costs against a closed contract? Are there allowable expenses within the same funding stream and funding period that can replace the disallowed costs?
   If the answer is yes, complete all of the steps outlined in this section:
   1) An entry will need to be made on the subrecipient’s accounts to remove the disallowed cost(s) from the contract expenses; this disallowed cost must be moved to local unrestricted funds.
   2) The removal of the disallowed cost has now reduced the total expense for the closed contract and no longer matches the total expenses that were reported on the close-out report.
   3) The next step is to find a contract within the same funding stream and funding period as the closed contract where the disallowed expenses were removed.
   4) If the expenses are being moved from another closed contract then continue to move allowable expenses from contract to contract — within the same funding stream and funding period — until the allowable expenses could be moved to an active contract.
   5) A copy of all entries, along with supporting documentation, and a copy of the drawdown request where the requested funds were reduced by the disallowed costs will need to be provided to the Grants and Budgets Unit at TDLWD; these documents serve as verification that the disallowed costs have been corrected.

Note: See example below.
Example: Disallowed costs of $100 on Contract A (where Contacts A-C are from the same funding stream).

**Contract A** - Start Date: 7/1/14  End date: 6/30/16 - CLOSED  
**Overlaps with B:** 7/1/15 - 6/30/16

**Contract B** - Start Date: 7/1/15  End Date: 6/30/17 - CLOSED  
**Overlaps with C:** 7/1/16 - 6/30/17

**Contract C** - Start Date: 7/1/16  End Date: 6/30/18 - OPEN

i) Entry to move $100 of disallowed expense off Contract A and to unrestricted funds.

ii) Entry to move $100 of allowable expenses within the same funding stream and funding period from Contract B to Contract A. Expenses cannot be moved from Contract C back to Contract A, because their funding periods do not overlap; therefore, allowable expenses from Contract B, within the overlap period of 7/1/15 - 6/30/16, will need to be moved back to Contract A. This will make the total allowable expenses on the subrecipient's account match the reported allowable expenses on the close-out report.

iii) Entry to move $100 of allowable expense within the same funding stream and funding period from Contract C to Contract B to replace the allowable expenses that were just removed from Contract B. The overlap period between Contract B and C is 7/1/16 - 6/30/17. This entry will make the total allowable expenses on the subrecipient's account match the reported allowable expenses on the close-out report.

iv) Now that Contracts A and B are made whole the reduction of expenses ultimately landed on Contract C, which means that the next drawdown request for Contract C will need to be reduced by $100. The Feds are owed repayment of the disallowed costs in the amount of $100; therefore they are being repaid by the subrecipient drawing $100 less than what is needed.

**III. If the subrecipient does not have enough allowable expenses to move between contracts within the same funding stream and funding period then complete the steps below:**

1) The LWDB, or Fiscal Agent, mails a check in the amount of the disallowed costs, as well as a listing of the contracts involved in the disallowed costs, to the Grants and Budgets unit at TDLWD.

2) The Grants and Budgets unit will then pass on the check to TDLWD Finance and Administration Unit who will deposit the check and see if entries can be done at the statewide level to move allowable expenses between the same applicable funding streams and funding periods.

3) Once the entries have been made causing the funds to be returned to the Federal government, copies of all entries and their supporting documentation
will be given to the Grants and Budgets Unit to provide proof that the issue has been resolved.

4) If entries can't be utilized to make proper reimbursement, which would be highly unlikely, a state warrant is used. A state warrant is a written order that disburses funds from the State treasury to the Federal government bearing the State Treasurer's unique routing number and signed by the State Treasurer. Once Finance and Administration (F&A) receives the state warrant, it will be given to the Grants and Budgets Unit to forward on to the Federal government.

Contact:
For any questions related to this guidance, please contact Nicholas Bishop, Director of Compliance and Policy for Workforce Services at Nicholas.Bishop@tn.gov

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