

Technical Assistance Guidance

TAG 60-2023

Issued Date: November 13, 2023

Subject: Reimbursement of Potentially Disallowed Costs

Purpose

This TAG provides guidance with respect to reimbursement of potentially disallowed costs on sub-recipient contracts funded by, but not limited to: Adult and Dislocated Worker; Youth; National Dislocated Worker Grants and other programs funded in whole or in part under Title I of the Workforce Innovation and Opportunity Act (WIOA).

References

29 U.S.C. §3244; Public Law (P.L.) 113–128 WIOA Secs. 183, 184; 2 CFR Part 200; 20 CFR Part 683; SCP 3.1; WC FIS-020-01, Sub-award Terms and Conditions.

Background

WIOA is designed to help job seekers access employment, education, training, and support services to succeed in the labor market and to match employers with the skilled workers they need to compete in the global economy. WIOA supersedes the Workforce Investment Act of 1998 and amends the Adult Education and Family Literacy Act, the Wagner-Peyser Act, and the Rehabilitation Act of 1973.

The central mission of the program is to deliver quality services to job seekers and employers alike consistent with negotiated contract metrics. The careful balance of participant costs and non-participant costs are critical financial aspects that guide the implementation and prioritizing positive outcomes for program participants of workforce development programs. As a result, WC has implemented contractual financial requirements including, but not limited to, WBL expenditure rates, participant expenditure rates, and OJT expenditure rates.

Guidance

WC will only fully reimburse on the compliant portion of a contract. Reimbursements for costs which are not compliant will be reduced based on the percentage of obligation met. The compliant portion of the contract is the portion of contract expenditures that meet fiscal provisions of the contract, such as, but not limited to, WBL expenditure rates, participant expenditure rates, and OJT expenditure rates. For more information, please see “Definitions, Methodology, and Examples” section of this TAG.

Rationale

Reducing the reimbursement on the non-compliant portion of the contract provides a financial incentive to the sub-recipient to meet contract requirements by:

- Reducing reimbursement when not compliant; and
- Providing a financial incentive to bring a contract into compliance – if in an invoice period, the sub-recipient had reimbursements reduced by an amount due to non-compliant expenditures. The amount could be paid out in a later invoice cycle if the contract is brought into compliance.

Additional WC Options

Service Providers who repeatedly do not meet contracted fiscal performance metrics throughout the year or at year-end (June 30) may be subject to additional measures, including, but not limited to:

- 100% of potentially disallowed costs;
- Notice of deficiency;
- Low-Risk or High-Risk status;
- Reduction in future contract amounts;
- Reduction in negotiated profit for the entire upcoming program year.

Definitions, Methodology, and Examples

Compliant Portion of Contract - The compliant portion of a contract is determined by taking the total contract expenditures and subtracting any potential disallowed costs.

Potential Disallowed Costs - Potential disallowed costs are the identified portion of costs which are either not allowable (as stated in WC policy) or are not compliant with applicable laws, regulations, and/or provisions of WC contract agreements.

Reduction Rate - WC has determined that reimbursements for costs which are potentially disallowed or are non-compliant will be reduced based on the following table:

Percentage of Obligation Met	Reduction Rate
Greater than or equal to 100%	0%
Less than 100%	15%

The percentage of obligation met is calculated as the actual percentage achieved divided by the percentage requirement. For example, a contract which requires a minimum of 30% WBL and has an expenditure rate of 20% on WBL would have a percentage of obligation met equal to 66.7% (20% actual / 30% required). The reimbursement for the potentially disallowed or non-compliant costs would be reduced by a rate of 15% based on the table above.

Examples of how this process will be implemented are detailed below on pages three through five of this TAG.

WBL Example #1

A youth contract which has a 30% minimum WBL requirement and has expenditures of \$25 in WBL, \$20 in other participant costs, and \$55 in other non-participant costs is not compliant, i.e. the WBL is $\$25 / \100 in total expenditures = 25% which is under the minimum of 30%. To bring the contract into compliance, WC would potentially disallow \$16.67 of the other costs. To calculate the potential disallowed costs, WC will first calculate the total compliant expenditures ($\$25$ WBL / 30% requirement = $\$83.33$ in total compliant expenditures). The potential disallowed costs would then equal $\$100$ total expenditures - $\$83.33$ in total compliant expenditures = $\$16.67$. The reduction in the reimbursement would then be calculated as $15\% \times \$16.67$ potential disallowed costs = $\$2.50$. See Table Below:

Contract Provisions		Notes
Type of Contract	Youth	
Negotiated Profit on Non-participant Expenditures	10%	
WBL Requirement	30%	
Sample Invoice		
WBL Expenditures	\$25	
Other Participant Costs	\$20	
Non-Participant Costs	\$55	
Total Expenditures	\$100	
WBL Expenditure Percentage	25%	= $\$25$ WBL Expenditures / $\$100$ Total Expenditures
Compliant Expenditures	\$83.33	= $\$25$ WBL / 30% WBL Requirement
Potential Disallowed Costs	\$16.67	= $\$100$ Total Expenditures - $\$83.33$ Compliant Expenditures
Percentage of Obligation Met	83.3%	= 25% Actual WBL / 30% Required WBL
Reduction Rate	15.0%	Reduction Rate from Table Above
Reduction in Reimbursement	\$2.50	= 15.0% Reduction Rate X $\$16.67$ Potential Disallowed Costs

WBL Example #2

A youth contract which has a 30% minimum WBL requirement and has expenditures of \$20 in WBL, \$25 in other participant costs, and \$55 in other non-participant costs is not compliant, i.e. the WBL is \$20 / \$100 in total expenditures = 20% which is under the minimum of 30%. To bring the contract into compliance, WC would potentially disallow \$33.3 of the other costs. To calculate the potential disallowed costs, WC will first calculate the total compliant expenditures (\$20 WBL / 30% requirement = \$66.67 in total compliant expenditures). The potential disallowed costs would then equal \$100 total expenditures - \$66.66 in total compliant expenditures = \$33.33. The reduction in the reimbursement would then be calculated as 15% X \$33.33 potential disallowed costs = \$5.00. See Table Below:

Contract Provisions		Notes
Type of Contract	Youth	
Negotiated Profit on Non-participant Expenditures	10%	
WBL Requirement	30%	
Sample Invoice		
WBL Expenditures	\$20	
Other Participant Costs	\$25	
Non-Participant Costs	\$55	
Total Expenditures	\$100	
WBL Expenditure Percentage	20%	= \$20 WBL Expenditures / \$100 Total Expenditures
Compliant Expenditures	\$66.67	= \$20 WBL / 30% WBL Requirement
Potential Disallowed Costs	\$33.33	= \$100 Total Expenditures - \$66.67 Compliant Expenditures
Percentage of Obligation Met	66.7%	= 20% Actual WBL / 30% Required WBL
Reduction Rate	15.0%	Reduction Rate from Table Above
Reduction in Reimbursement	\$5.00	= 15.0% Reduction Rate X \$33.33 Potential Disallowed Costs

Participant Costs Example

An ADW contract which has a 51% minimum participant expenditure requirement and has expenditures of \$45 in participant costs and \$55 in non-participant costs is not compliant, i.e. the participant expenditure rate is $\$45 / \100 in total expenditures = 45% which is under the minimum of 51%. To bring the contract into compliance, WC would potentially disallow \$11.76 of the non-participant costs. To calculate the potential disallowed costs, WC will first calculate the total compliant expenditures ($\$45$ participant costs / 51% requirement = \$88.24 in total compliant expenditures). The potential disallowed costs would then equal $\$100$ total expenditures - \$88.24 in total compliant expenditures = \$11.76. The reduction in the reimbursement would then be calculated as $15\% \times \$16.67$ potential disallowed costs = \$2.50. See Table Below:

Contract Provisions		Notes
Type of Contract	ADW	
Participant Expenditure Requirement	51%	
Sample Invoice		
Participant Expenditures	\$45	
Non-Participant Costs	\$55	
Total Expenditures	\$100	
Participant Expenditure Rate	45%	= \$45 Participant Expenditures / \$100 Total Expenditures
Compliant Expenditures	\$88.24	= \$45 Participant Expenditures / 51% Participant Expenditure Requirement
Potential Disallowed Costs	\$11.76	= \$100 Total Expenditures - \$88.24 Compliant Expenditures
Percentage of Obligation Met	88.2%	= 45% actual Participant Costs / 51% Required Participant Costs
Reduction Rate	15%	Reduction Rate from Table Above
Reduction in Reimbursement	\$2.50	= 15% Reduction Rate X \$11.76 Potential Disallowed Costs

Technical Assistance

Available upon request.