

STATE OF ALASKA

DEPARTMENT OF HEALTH AND SOCIAL SERVICES

OFFICE OF CHILDREN'S SERVICES

FRANK H. MURKOWSKI, GOVERNOR

FAMILY NUTRITION PROGRAM - WIC

130 Seward Street, Room 508

P.O. BOX 110612

JUNEAU, AK 99811-0612

PHONE: (907) 465-3100;

FAX: (907) 465-3416

<http://hss.state.ak.us/ocs/nutri/WIC/Default.htm>

Reply to: **All Local Agencies Memorandum No-06-10**

Date: March 6, 2006

Information- X

Policy-X

TO: X-LA WIC Coordinators
X-Satellites

Action- X

FROM: Kathleen Wayne
State WIC Director

Routine (hard copy only) - X

Urgent (fax and hard copy)-

SUBJECT: WIC Cost Principles

The State Agency is increasingly aware that a number of Local Agencies may not be sufficiently informed of Federal. "cost principles." These "cost principles" typically involve the manner in which costs are fairly assigned to the WIC program. Costs might include wages and salaries, and non-salary costs such as goods and services.

These administrative requirements most especially impact grantees whose budgets include sources other than WIC funds. Any Local Agency whose WIC staff charge work hours to sources other than WIC funds will want to ensure that its administrative practices comply with Federal regulations.

WIC cost principles are detailed in the attached *WIC Cost Allocation Guide*. This guide was developed by the United States Department of Agriculture, which distributes all WIC funding to states. The guide is specific to the WIC program. However, it is based on circulars prepared by the congressional Office of Management and Budget (OMB) and the Code of Federal Regulations (CFR). These circulars form the very basis of Federal cost principles. Any entity that receives Federal funds – including WIC funds – must abide by the cost principles found in one of these circulars:

- OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, found at http://www.whitehouse.gov/omb/circulars/a087/a87_2004.pdf .
- OMB Circular A-122, Cost Principles for Non-Profit Organizations, found at http://www.whitehouse.gov/omb/circulars/a122/a122_2004.pdf .
- 45 CFR Part 74, Appendix E (Principles for Determining Costs Applicable to Research and Development Under Grants and Contracts with Hospitals), found at http://www.access.gpo.gov/nara/cfr/waisidx_05/45cfr74_05.html .

Local Agency staff are encouraged to review the **WIC Cost Allocation Guide** and the relevant OMB or CFR material. Following is a brief summary of the major topics of the guide.

Chapter I: Introduction to WIC Cost Allocation Guide. This chapter provides a general discussion about the purpose of the guide.

Of interest is a review of *direct* and *indirect* costs. For instance, Healthy Children, Inc. is a non-profit organization which provides services to children and families. Agency programs include the WIC Program and Head Start. Direct costs are directly attributable to a particular program. Example: personnel costs associated with certifying a WIC client.

Indirect costs support program activities but cannot be directly linked to a particular program. For instance, Healthy Children, Inc. also includes an administrative section which processes payroll and completes financial reports. These activities aren't directly linked to a particular program. Instead, programs that provide direct services – i.e. WIC and Head Start – are indirectly charged to support the administrative section's operational costs.

The **WIC Cost Allocation Guide** principally examines the manner in which *direct* costs are fairly distributed among funding sources.

Chapter II: Basic Cost Principles/WIC Allowable Costs. This chapter discusses WIC cost principles, including general rules that a Local Agency uses when deciding whether a cost can be charged to the WIC grant. The chapter states that a reasonable method must be developed to fairly allocate or charge costs to the WIC grant.

Chapter III: Methods for Charging the Cost of Wages and Salaries. The chapter suggests that WIC grantees must engage in “continuous time reporting,” whereby employees continuously generate documentation that supports the distribution of their work time and effort. Appropriate support documentation includes a “personnel activity report” (PAR). A PAR must:

- reflect an after-the-fact distribution of the actual activity performed by the employee;
- cover 100 percent of the employee's time;
- be prepared at least monthly, to coincide with the end of a pay period; and
- be signed by the employee.

For the purposes of the WIC program, continuous time reporting requires Local Agencies to distinguish between WIC and non-WIC hours worked. A simple PAR for a hypothetical Local Agency might incorporate the following information:

Employee:	Sally Smith		
Date	Work Hours	Non-Work hours	TOTAL

	WIC	Head Start	Holiday	Annual Leave	Sick Leave	
Sunday, 1/1						0
Monday, 1/2			8			8
Tuesday, 1/3	7	1				8
Wednesday, 1/4	7	1				8
Thursday, 1/5	4	4				8
Friday, 1/6	7	1				8
Saturday, 1/7						0
TOTALS	25	7	8	0	0	40

The federal standard is that all recipients of federal funds – including WIC grantees – would use PARs for time-keeping purposes. **In most instances, the PAR constitutes an employee timesheet.**

The USDA approved a methodology (under section 3030.A2b(1) of the *WIC Cost Allocation Guide*), whereby employees of Local Agencies use time studies to distribute their WIC work hours among four WIC cost categories that might not typically be incorporated in the PAR. These cost categories include nutrition education, breastfeeding promotion and support, client services, and program management. At a minimum, the State Agency requires Local Agency employees to complete these time studies at least one week out of every month.

As stated above, the PAR in most cases is the equivalent of a timesheet. However the State Agency understands that some Local Agency payroll processes require employees to record on their time sheets projected hours, not actual hours worked. This practice runs counter to the PAR requirement that hours are recorded after-the-fact. In these instances, the Local Agency would most likely process adjustments in its accounting system – at least quarterly -- to reflect the difference between projected work hours and actual hours worked. Adequate documentation for these accounting system adjustments are PAR forms, which in this example are separate from the timesheets used for payroll purposes.

Chapter IV: Methods for Charging Non-Salary Costs. Non-salary costs typically include such expenses as office supplies, goods and services, and equipment.

The manner in which non-salary costs are assigned to WIC cost categories or to different programs is the same as for salary costs:

- Costs incurred solely for a single cost category/program must be assigned solely to that cost category or program. Example: printing costs associated with a breastfeeding brochure would be assigned to the breastfeeding promotion and support cost category.
- Costs incurred for multiple cost categories/programs must be fairly and reasonably distributed among the cost categories/programs. Example: a WIC agency collocated with the Head Start program would distribute the \$1,000 lease cost for the agency’s sole photocopier between the two programs.

A table in Chapter IV identifies types of services and suggests bases by which costs for those services can be allocated. Generally, the “direct hours” methodology is regarded as a fair and reasonable way

to allocate costs. In the above example of the copier lease, an agency cost allocation plan – based on “direct hours” – assigns costs using data from both the PAR/timesheet and WIC time studies.

First, the agency would distribute costs between WIC and Head Start based on PAR/timesheet data showing the percentage of staff hours worked in each program. For instance, if 35% of agency PAR/timesheet hours are associated with WIC activity, then \$350 of the \$1,000 invoice would be charged to WIC.

Secondly, that portion of lease costs assigned to the WIC program would be distributed across the four WIC cost categories in a manner consistent with WIC time study data. For instance, the agency’s WIC time study data shows that 35% of work activity is associated with client services; 30% with nutrition education; 10% with breast-feeding promotion; and 25% with program management. The \$350 in WIC costs associated with the copier lease would be distributed across the WIC cost categories according to these percentages.

The federal expectation is that Alaska’s Local Agencies would presently be in compliance with WIC cost principles. However the State Agency recognizes that in the past it has not effectively communicated these principles to Local Agencies. Nor has the State Agency provided training to Local Agencies on this subject. The State desires that Local Agencies take necessary action -- in as timely a manner as possible -- to ensure compliance with these requirements. To assist Local Agencies in their efforts towards compliance, this subject will be reviewed at the next WIC quarterly teleconference. The State Agency will also incorporate a training on this subject into the fall 2006 AKAWIC conference. Local Agencies are also encouraged to review this material with experts they normally rely on for financial and administrative advice. Such experts might include agency administrative managers or certified public accountants (both in-house or contracted).

The State Agency anticipates that in future management evaluations, Local Agency compliance with Federal cost principles will be reviewed. Throughout the grant year, the State Agency may also request from Local Agencies sufficient support documentation – including invoices and timesheets (or PARs, if appropriate) – should it have questions regarding information reported on time studies and/or financial reports.