

STAND-IN COSTS AND AUDIT RESOLUTION

The Comptroller General of the United States issued a decision (68 Comp. Gen. 247, dated February 9, 1989) which indicates that the DOL should accept stand-in costs as a substitute for disallowed costs in audit resolution. The application of stand-in costs is considered by ETA during **the audit resolution stage**. If an auditee agrees that an auditor's questioned cost is unallowable or decides not to contest the finding and wishes to propose the use of stand-in costs as substitutes for otherwise unallowable costs, the proposal shall be included with the audit resolution report or other document by which the auditee provides its comments to the resolution agency. If the auditee is uncertain about the allowability of the auditor's questioned cost before receipt of the Initial Determination, the proposal to use stand-in costs may be presented during the informal resolution period.

Criteria

Stand-in costs are non-Federal costs that may be substituted for disallowed grant costs when certain conditions are met. Stand-in costs must meet the following criteria:

- To be considered, proposed stand-in costs shall have been actually incurred allowable grant costs that have not been charged to the ETA-funded program, included within the scope of the audit, and accounted for in the auditee's financial system required by 29 CFR Part 97 or 95 as appropriate. Cash match (i.e., expenditures of the organization used as match) in excess of the required match may also be considered for use as stand-in costs.
- To be accepted, stand-in costs must come from the same year as the costs that they are proposed to replace, and they must not cause a violation of the administrative or other cost limitations. Each of the separate criteria for consideration of proposed stand-in costs is discussed below:

Criterion: Must be allowable costs that were actually incurred for the benefit of the ETA-funded program and paid by a non-ETA fund source. Thus, for example, the dollar value of in-kind donations cannot be recognized as stand-in costs. Also, inasmuch as costs must be net-of-credits under the governing cost principles, the dollar value of discounts cannot be considered as an allowable grant cost.

Criterion: Must have been included within the scope of the organization's single audit (not necessarily tested but potentially subject to testing). This means that the costs must be recorded and included in the financial statements presented by the agency to the auditor for audit. Failure to include unbilled costs disqualifies the costs for stand-in consideration.

Criterion: Must have been accounted for in the auditee's financial system. This means that the unbilled expense must be recorded and documented in the administrative entity's books of accounts. It cannot be presented as a separate consideration outside the entity's accounting system.

Criterion: Must be adequately documented in the same manner as all other ETA-funded program costs. This means that the unbilled expense must be treated in a manner consistent with cost principles affecting other expenses, including but not limited to the cost allocation methodology, cost classification methodology, and supporting documentation requirements.

Caution: Stand-in costs cannot be created using circumstances or conditions that appear to be legitimate liabilities if no actual costs are incurred by any entity.

Example: The local school department provides free space for an ETA-funded program in a building that has been fully depreciated. The only facility-related costs the school department actually pays are for general maintenance. A liability created by the school department related to rental costs that were never paid is not a legitimate stand-in cost. The only legitimate stand-in cost available in this example, assuming that all recording and reporting requirements have been satisfied, is an allocable share of the general maintenance cost based on square footage occupied, or another allocation method that would be more equitable.

Certain costs, including in-kind contributions, are not considered unpaid ETA program liabilities, but rather as in-kind match; therefore, they cannot be used as stand-in costs because they cannot be charged to the Federal grant. Examples of other costs that are not stand-in costs include:

- Uncompensated overtime
- Unbilled premises costs associated with fully depreciated publicly owned buildings
- Allocated costs derived from an improper allocation methodology
- Discounts, refunds, rebates
- Any State share of the cost of State or community college tuition.

Two other caveats should be mentioned. First, as suggested above, allowable stand-in costs may be used to trade or substitute for disallowed costs under certain conditions. The source of stand-in, however, is intended to be limited to the same entity that incurred the disallowed costs. Thus, aggregation or pooling of stand-in within a State formula grant as a kind of insurance policy available to reduce or eliminate bad costs wherever they might be identified is not an arrangement that will be recognized by the DOL. Second, if the cause of the disallowed costs was fraud, then the DOL will not ordinarily consider proposals of stand-in to substitute for such costs.

APPEALS

The appeals process for DOL programs is described at 29 CFR Part 96, Subpart F. This subpart applies only to those recipients, subrecipients, vendors, and contractors against whom the DOL has directly levied a sanction. It includes provisions for appeals by both contractors and grantees. The provision at 29 CFR 96.62 indicates that contractors (e.g., Job Corps center operator contractors) may appeal a DOL Contracting Officer's Final Determination to the DOL Board of Contract Appeals. The requirements for appeals by grantees are found in