CHAPTER I

INTRODUCTION TO WIC COST ALLOCATION GUIDE

1000 PURPOSE

This guide describes methods for assigning costs to a State or local agency's WIC Program grant or subgrant. State and local agencies shall use this guide in assigning costs to WIC, except where other documents, such as an ADP Advance Planning Document (APD), cost allocation plan, indirect cost rate agreement, etc. prescribes other methods.

1010 AUTHORITY

The WIC authorizing statute at 42 U.S.C. 17(h)(1)(A) provides that FNS shall allocate Federal WIC funds to States each fiscal year "for costs incurred by State and local agencies for nutrition services and administration for such year." The Federal cost principles stated in OMB Circular A-87 (Cost Principles for State, Local, and Indian Tribal Governments), OMB Circular A-122 (Cost Principles for Nonprofit Organizations), and 31 CFR Part 74, Appendix E (Principles for Determining Costs Applicable to Research and Development Under Grants and Contracts With Hospitals) provide general rules for use by the respective types of organizations to which they apply in charging costs to Federal programs for reimbursement by Federal awarding agencies. Program-specific allowable cost rules are found at 7 CFR 246.14 and in written guidance issued by FNS. This guide implements these authoritative documents with respect to the WIC Program.

1020 BACKGROUND

The Congress created the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) to serve as an adjunct to good health care for low-income women, infants, and children. Its primary mission is to provide nutritious supplemental foods and nutrition education for such persons during critical times of growth and development.

As important as nutrition is to overall health and well-being, the Congress also recognized that nutritional services without other primary health care and related social services are simply half-measures. Therefore, WIC is also tasked with operating as a front-line health screening and risk assessment program and serving as a linkage or gateway to health care and social services. WIC accomplishes this by performing an aggressive information and referral function.

Many costs incurred by State or local agencies are directly attributable to the WIC Program; these are known as **direct costs**. However, the delivery of WIC benefits has great potential to overlap the health service parameters of a number of other State and Federal public health and public assistance programs. Examples of such programs include those funded under Title V of the Maternal and Child Health Block Grant, Community and Migrant Health Centers, Medicaid (especially its Early and Periodic Screening, Diagnostic and Treatment (EPSDT) component), Immunization, Head Start, and the WIC Farmers' Market Nutrition Program. The same costs that benefit WIC often benefit these and other programs as well. Such shared costs must be assigned to programs through a process of allocation.

This is particularly true in cases where State and local agencies have integrated the delivery of program services in order to make them available to clients in a "one-stop shopping" mode. While this operating method minimizes duplication of effort between programs, it results in different programs sharing many costs. The trend toward the integration of health service delivery magnifies the need for cost allocation systems sophisticated enough to assign WIC its fair share of costs, but not so complex as to create administrative burdens that discourage "one-stop shopping."

Certain shared costs reach WIC via agreements negotiated with Federal agencies. For example, ADP development costs covered by an APD are assigned to WIC in accordance with the approved APD. Other shared costs are covered by allocation documents approved by a cognizant Federal agency in accordance with the Federal cost principles. These include:

A. Costs of State and Local Central Services.

Central services are services performed by an office or agency of a governmental unit for the benefit of other agencies. Examples may include motor pools, computer centers, printing shops, purchasing offices, audit staffs, etc. OMB Circular A-87 (Cost Principles for State, Local, and Indian Tribal Governments), Attachment C requires a State, local, or tribal government to allocate the cost of such activities to user agencies, such as the WIC agency (health department), through a Central Services Cost Allocation Plan. This is often known as a Statewide Cost Allocation Plan, or "SWCAP." Once these central services costs reach the WIC agency, they are generally allocated to WIC and other programs via a departmental indirect cost rate agreement negotiated with the cognizant agency under A-87, Attachment E. In some cases, however, costs assigned to user agencies via the SWCAP may be directly charged to programs administered by such agencies.

B. Indirect Costs.

This category generally consists of administrative overhead costs that cannot be identified to programs and other cost objectives without effort disproportional to the results achieved. Because these costs' support of specific programs cannot be precisely measured, the State or local agency negotiates with its cognizant agency a methodology for assigning them to programs. Generally, the methodology entails combining administrative overhead costs incurred within a State or local agency with costs allocated to that agency via the SWCAP (or its local level equivalent), and allocating the entire body of costs (or "cost pool") to programs and other cost objectives via an indirect cost rate. This methodology is institutionalized in an indirect cost rate agreement negotiated for State agencies and governmental local agencies under A-87, Attachment E; for non-governmental, nonprofit local agencies under OMB Circular A-122 (Cost Principles for Nonprofit Organizations), Attachment A, sections C. through E.); and for local agencies that are hospitals under 45 CFR Part 74, Appendix E (Principles for Determining Costs Applicable to Research and Development Under Grants and Contracts With Hospitals).

C. Public Assistance Agency Costs.

Attachment D of A-87 requires any State agency administering public assistance programs (such as the Food Stamp Program, Medicaid, Child Support Enforcement, Foster Care, etc.) to submit to the Department of Health and Human Services (DHHS) a public assistance cost allocation plan (PACAP). The PACAP covers the allocation of the agency's shared costs. These costs include not only administrative overhead activities but also "allocable direct costs," such as compensation for staff engaged in screening applicants for benefits under multiple programs. In some States, health and public assistance programs are administered by one "umbrella agency." Such State agencies allocate shared costs to WIC in accordance with their approved PACAPs.

The instructions given in this guide apply to WIC direct costs, and to shared costs assigned to WIC in situations not covered by an APD or by one of the allocation documents described above. Such costs include, but are not limited to, the cost of wages and salaries in "stand-alone" health agencies (those that are not part of an "umbrella agency"). Where shared costs charged to WIC are covered by an approved APD or allocation document, the State or local agency must follow the methodology set out in such document. A State or local agency may, of course, use this guide in negotiating the allocation documents because the instructions contained herein have been crafted to conform to the Federal cost principles.

Chapter II of this guide restates the Federal cost principles as they apply to WIC direct costs and shared costs allocated to WIC; and outlines specific costs considered allowable charges to WIC. Chapter III outlines methods of allocating shared salary costs to WIC. Finally, Chapter IV provides general guidance for allocating shared non-salary costs to WIC.

CHAPTER II

BASIC COST PRINCIPLES/WIC ALLOWABLE COSTS

2000 GENERAL REQUIREMENTS

The basic guidelines for identifying costs which may be charged to a Federal grant are found in OMB Circular A-87 for State agencies and governmental local agencies, and in A-122 for non-governmental, nonprofit local agencies. These circulars are implemented by departmental regulations at 7 CFR Part 3016.22(b) and 3019.27, respectively. In addition, section 3019.27 establishes 45 CFR Part 74, Appendix E as guidance for USDA programs operating in hospitals. To be deemed an allowable charge to a Federal grant under these guidelines, a cost must:

A. Be reasonable and necessary to carry out the program.

B. Be treated consistently. This means that costs incurred for the same purpose in like circumstances must be consistently charged to a Federal grant as either direct costs or indirect costs.

C. Be consistent with and allowable under Federal, State and local laws, regulations and policies.

D. Be determined in accordance with generally accepted accounting principles (except where the applicable Federal cost principles expressly provide otherwise) and adequately documented.

E. Be net of applicable credits.

F. Be charged to the correct accounting period.

G. Not be charged to more than one Federal grant or used to meet a matching or cost sharing requirement for more than one Federal grant, either in the current or a prior accounting period.

H. Be allocable. A cost is allocable to the Federal grant only to the extent that it benefits the grant's objective.

I. Costs must be allocated equitably in terms of the benefit derived. To accomplish this requirement, the relative benefit must be approximated through the use of a reasonable method.

A cost is considered **reasonable**, if in nature and amount, it does not exceed what a prudent person would spend for a like item or activity to achieve the program's objectives. Costs incurred to carry out essential WIC Program functions, and which cannot be avoided without adversely impacting WIC Program operations, will be considered **necessary**. Costs determined to be reasonable and necessary to meet WIC Program objectives are allowable charges to the Federal WIC grant, provided these costs meet the other requirements for allowability. Since the WIC grant is limited in amount, the priority of the expenditure in relation to other demands on available resources must also be considered.

Activities considered to be necessary to achieve WIC Program objectives are discussed in this chapter. They may be performed solely for the benefit of meeting WIC Program objectives, or to meet objectives of both WIC and non-WIC Programs. Further, these activities may be performed by WIC-only or multiple-program employees. The costs of the activities are allocable to the WIC Program grant to the extent that the activities are performed to benefit the WIC Program. Methods for allocating salary costs are discussed in Chapter III, and methods for allocating non-salary costs are discussed in Chapter IV.

2010 COMPONENTS OF FEDERAL WIC GRANT

The WIC Program's authorizing statute, the Child Nutrition Act of 1966, as amended, provides that a State agency's Federal WIC grant will consist of two components: one for the cost of supplemental food benefits and one for the costs of nutrition services and administration (NSA). Costs necessary to fulfill Program objectives (e.g., costs to

provide WIC Program participants with supplemental foods, nutrition education, breastfeeding promotion and support and referral to related health services) are allowable charges to the applicable component of the WIC grant.

2020 FOOD COSTS

A. Supplemental Foods

The acquisition costs of supplemental foods are allowable charges to the food component of the Federal WIC grant. The nature of the acquisition cost is determined by the food delivery system used by the State. Food benefits may be delivered to WIC participants through one or a combination of the following food delivery systems:

1. Retail Purchase Method.

   Under this method, the local agencies furnish food benefits by issuing food instruments (FIs) to participants. The FIs issued to a participant are valid only for the supplemental foods prescribed for that individual by the local agency. Participants use their FIs to purchase the prescribed supplemental foods from authorized food vendors such as retail grocery stores, who in turn redeem the FIs for cash from the State agency or its fiscal agent. Under this method, the supplemental food acquisition costs are equal to the amounts paid out to authorized food vendors for the cost of food items purchased by participants with validly redeemed FIs. Most State agencies use this method.

2. Home Delivery Method.

   In a few geographic areas, prescribed supplemental foods are delivered to WIC participants' homes by contracted food vendors. The State or local agency uses proof-of-delivery forms to notify WIC participants and vendors of

supplemental foods prescribed for, and ordered for delivery to, the WIC participants' homes. The participants then use these same forms to acknowledge receipt of the food items. The supplemental food acquisition costs are equal to the amounts paid out to the contracted food vendors for both the cost of the food items and the cost of delivering them. Payments to the vendors are based on the completed proof-of-delivery forms.

3. Direct Distribution Method.

If the State or local agency uses a direct distribution system, the acquisition cost of supplemental foods is the cost the State or local agency incurs to purchase and warehouse supplemental foods for later distribution to the participants.

B. Breast Pumps.

For Federal WIC grant funds awarded for fiscal year 1999 and after, the cost to purchase or rent breast pumps is an allowable charge to the food component of the Federal WIC grant.

2030 NSA COSTS - GENERAL

A State or local agency **must** perform the following functions in order to meet WIC Program objectives: nutrition education, breastfeeding promotion and support, participant certification and caseload management, food delivery, vendor management, screenings for and referrals to other social and medical service providers and general program management. Therefore, the costs associated with these functions are allowable charges to the NSA component of the Federal WIC grant, provided these costs meet the other requirements for allowability.

2040 NSA COSTS FOR CLINIC ACTIVITIES

The following activities performed in WIC clinics are considered necessary to meet WIC Program objectives. Therefore, provided all other requirements for allowability are satisfied, the **direct and indirect** costs associated with performing these activities are allowable charges to the WIC NSA grant.

A. Participant Certification/Case Management

1. Data Collection/Risk Assessment for Eligibility Determination

   i) obtain application data/assess for eligibility - name/income/residency, etc.

   ii) anthropometric screening (heights, weights) and blood work (hematocrits or hemoglobins).

   iii) obtain and/or score diet recall.

   iv) screening for other medical conditions which affect the participant's nutritional status and needs - substance abuse, food allergies, diabetes, etc. (no laboratory analysis).

2. Case Management

   i) nutrition care plan development.

   ii) maintenance of participant manual/automated charts/records.

   iii) appointment scheduling/reminders and reviewing certification/recertification information needed with applicant/ participant.

   iv) participation in public health needs

assessment/surveillance activities related broadly to maternal and child health as long as WIC has access to information gathered.

B. Nutrition Education

1. Preparing/scheduling/providing group or individual nutrition education.

2. Preparing nutrition education materials.

3. High risk nutrition counseling.

C. Breastfeeding Promotion and Support

1. Preparing/scheduling/providing group or individual breastfeeding promotion and support.

2. Preparing breastfeeding promotion and support materials.

D. Food Delivery

1. Development of/assigning WIC food packages.

2. Issuing food instruments/accounting for food instrument issuances.

E. Health Care Referrals

The costs of some screening (excluding laboratory tests), referrals for other medical/social services such as immunizations, prenatal and perinatal care, well child care and/or family planning, and follow-up on participants referred for such services, may be charged to the WIC grant. However, the cost of the services performed by the other health care/social service provider to which the participant has been referred shall not be charged to the WIC grant.

A hematological test for anemia such as a hemaglobin, hematocrit, or free erythrocyte protoporphyrin test is the only laboratory test required to determine a person's eligibility for WIC. As such, the cost of a hematological test for anemia is the only laboratory cost that may be charged to the WIC grant. Laboratory tests to screen for other health conditions including, but not limited to, pregnancy, lead and diabetes are not allowable charges to the WIC grant. When WIC operates in a clinic which requires complete blood samples for more complex blood tests, WIC will only pay an agreed upon amount that approximates the cost that WIC would have incurred if it had conducted its own blood tests (hemaglobin, hematocrit or free erythrocyte protoporphyrin tests) for WIC eligibility.

2050 NSA COSTS FOR PROGRAM MANAGEMENT ACTIVITIES

The following program management activities are considered necessary to meet WIC Program objectives; and therefore, the costs associated with conducting these activities are allowable charges to the WIC NSA grant component.

A. Maintaining accounting records.

B. Audits.

C. Budgeting.

D. Food instrument reconciliation, monitoring and payment.

E. Vendor Monitoring

F. Outreach.

2060 UNALLOWABLE COSTS

Under no circumstances may the Federal WIC grant be charged in full or in part for the costs of services which are demonstrably outside the scope of the WIC Program's authorizing statute. For example, the

WIC grant may be charged to screen WIC participants for immunizations and refer and follow-up on WIC participant immunizations, but WIC may not be charged for the cost to administer the shot, the vaccine or vaccine-related equipment. Further, costs which are specifically disallowed by applicable Federal cost principles may not be charged to the WIC grant.

2070 COST-RELATED COMPLIANCE REQUIREMENTS

The WIC Program's authorizing statute and program regulations at 7 CFR section 246.14(c) require a State to incur a stated level of cost for each of two functions: nutrition education and breastfeeding promotion and support. The amount of cost a State counts toward meeting each of these requirements cannot exceed the full cost of performing the applicable function. The full cost is the sum of the function's direct and indirect costs. A State that counts indirect costs toward meeting these requirements must identify them through the same methodology negotiated with the cognizant agency for assigning indirect costs to Federal programs. If, for example, the State agency's indirect cost rate agreement calls for identifying fringe benefit costs to a program by applying a stated fringe benefit rate to the program's direct salaries, then the State agency would identify fringe benefit costs associated with nutrition education by applying the fringe benefit rate to the direct salaries of staff engaged in that function.

While WIC is designed to be 100 percent federally funded, its authorizing statute and regulations provide for FNS to grant prior approval for a State to meet part of its nutrition education and/or breastfeeding promotion and support requirement(s) with resources other than its Federal WIC grant. A State exercising this option must document the application of such other resources to the costs of these functions. Such documentation must meet the same standards as documentation of costs supported by Federal WIC grant funds. For example, a State must use the methods described in Chapter III of this guidance to document nutrition education salary costs supported by State funds. Likewise, the cost of building space counted toward the nutrition education requirement must be documented in accordance

with Chapter IV, regardless of whether or not it is charged to the Federal WIC grant.

2080 ADDITIONAL INFORMATION

For additional information concerning allowable/unallowable costs under the WIC Program, please refer to the following:

A. WIC Program regulations at 7 CFR 246.14 and 7 CFR 246.15.

B. Departmental regulations at 7 CFR 3016.22 and 3019.27.

C. Federal cost principles:

1. OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments.

2. OMB Circular A-122, Cost Principles for Non-Profit Organizations.

3. 45 CFR Part 74, Appendix E, Principles for Determining Costs Applicable to Research and Development Under Grants and Contracts With Hospitals.

4. Publication ASMB C-10, Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements With the Federal Government.

D. WIC memoranda:

1. Unnumbered Policy Memorandum, "Treatment of Warehouse Costs Under Public Laws 99-500 and 99-591," dated August 18, 1987.

2. WIC Policy Memorandum 93-3A, WIC's Role in Screening for Childhood Lead Poisoning," dated March 23, 1993.

3. Unnumbered Policy Memorandum, "Nonallowance of WIC Funds to Purchase Folic Acid Supplements," dated September 3, 1993.

4. WIC Policy Memorandum 94-4, "Implementation of the National Voter Registration Act of 1993 (NVRA)," dated March 31, 1994.

5. WIC Policy Memorandum 94-7, "Direct/Indirect Breastfeeding Aids," dated May 27, 1994.

6. WIC Policy Memorandum 95-5, "Allowability of Costs for Program Incentive Items," dated December 21, 1994.

7. WIC Policy Memorandum 95-16, "Allowable Costs for Immunization," dated April 26, 1995.

8. WIC Final Policy Memoradum 95-18, "Providing Breast Pumps to WIC Participants," dated June 22, 1995.

9. WIC Policy Memorandum 96-9, "Nutrition Education and Breastfeeding Promotion and Support Expenditure," dated May 21, 1996.

10. WIC Final Policy Memorandum 99-05, "Strategies for Outreach to Children Eligible for the New Children Health Insurance Program (CHIP) or the Medicaid Program and Cost Issues," dated March, 1999.

11. Unnumbered Memorandum, "Breast Pumps as a Food Cost," dated June 25, 1999.

CHAPTER III

METHODS FOR CHARGING THE COST OF WAGES AND SALARIES

3000 GENERAL

The documentation a grantee or subgrantee needs to support personnel costs charged to Federal programs is described in the Federal cost principles (A-87, Attachment B, paragraph 11.h.; A-122, Attachment B, paragraph 7.m.; or 45 CFR Part 74, Appendix E, paragraph IX.B.7.c.; as applicable). The text of these requirements is paraphrased in this guide in order to explain what documentation is required to charge the cost of wages and salaries to a Federal WIC Program grant or subgrant.

A. Structure of Cost Data.

A State or local agency must capture data on employee time and effort by "cost objective." A cost objective is a "function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred." (A-87, Attachment A, paragraph B.11.) WIC and other Federal programs operated by a State or local agency meet this definition. In addition, four functions within WIC are cost objectives: nutrition education, breastfeeding promotion and support, client services, and program management. Nutrition education and breastfeeding promotion and support are statutory requirements for which compliance is measured by costs incurred. Cost data are needed to determine whether a State met these requirements, and a State agency that fails to meet them is subject to claims action by FNS. Cost data on all four functions are needed to demonstrate that WIC NSA costs do not consist disproportionately of administrative overhead.

B. Documentation – General Rule.

The required documentation system is known as "continuous time reporting" because employees engaged in multiple programs or cost objectives must continuously generate documentation supporting the distribution of their time and effort. Salary costs charged to WIC and other Federal programs by a State or local agency using continuous time reporting must be supported by payrolls documented in accordance with the generally accepted practice of the State or local agency and approved by a responsible official of such organization. In addition, the distribution of employees' compensated time to programs and other cost objectives must be supported by "personnel activity reports [(PARs)] or equivalent documentation." This documentation must: reflect an after-the-fact distribution of the actual activity performed by the employee; cover 100 percent of the employee's time; and be prepared and signed by the employee at least monthly, to coincide with the end of a pay period. In other words, the record must show not only how many hours employees were present for duty, but also what they did while they were there. (A-87, Attachment B, paragraph 11.h.(1)-(2)); A-122, Attachment B, paragraph 7.m.(1); 45 CFR Part 74, Appendix E, paragraph IX.B.7.c.) This procedure is described in more detail in section 3010, below.

There are two exceptions to the general documentation requirements for State and local agencies using continuous time reporting:

1. Single Cost Objective – Governmental Agencies.

In addition to the payroll records referenced above, each employee of a State agency or a governmental local agency that performs work under only one cost objective must sign a semi-annual certification to that effect. A supervisory official having first-hand knowledge of the employee's work must also sign such document. A PAR is not required in such cases. (A-87, Attachment B, paragraph 11.h.(3))

2. Multiple Cost Objectives – Hospitals.

In local agencies that are hospitals, "professional staff" are not required to complete PARs as outlined above. Instead, they are required to complete monthly "estimates" of the distribution of their work time to Federal programs. Such an estimate must be completed not later than one month (not necessarily a calendar month) following the month in which the employee performed the work to which the estimate pertains. For this purpose, "professional staff" include personnel who "normally fulfill duties, the competent performance of which usually requires persons possessing degrees from accredited institutions of higher learning and/or State licensure." This category includes physicians, nurses, nutritionists, and other persons performing work at responsible levels of activities. (45 CFR Part 74, Appendix E, paragraph IX.B.7.c.)

C. Documentation – Substitute Systems.

A State or local agency **must** use continuous time reporting unless its cognizant Federal agency has approved the use of a substitute system. (A-87, Attachment B, paragraphs 11.h.(4) and (6); A-122, Attachment B, paragraphs 7.m.(1) and (2)) The cognizant agency for geographical State agencies is the U.S. Department of Health and Human Services (DHHS); for Indian State agencies, it is the Department of the Interior. The exception is that FNS, the awarding agency, rather than the cognizant agency may approve the use of a substitute system for employees who work solely for the WIC Program, but for more than one of the Program's four cost objectives. FNS regional offices may therefore grant approval for their WIC State agencies to distribute the salary costs of WIC-only employees to WIC's four NSA cost categories using a substitute system, such as periodic time reporting. WIC State agencies may, in turn, grant approval for their local agencies to use the substitute system as well.

Section 3030 provides the principles of appropriate periodic time reporting. Placement of approval authority with the awarding rather than the cognizant agency is allowed because time reporting for an employee who works solely for the WIC Program does not affect assignment of costs to other programs.

Substitute systems that cognizant agencies may approve include, but are not limited to, those described in sections 3030 through 3040, below. A State agency shall obtain cognizant agency review of a substitute system through the following procedure:

1. State Agency Systems.

   A State agency shall submit its substitute system to the applicable office of its cognizant agency and request review under A-87, Attachment B, paragraph 11.h.(6). If the cognizant agency declines to perform such review, then the State agency shall submit its substitute system to the applicable FNS regional office (FNSRO). The FNSRO shall then review the State agency's proposed substitute system to satisfy itself that it would result in a reasonable allocation of salary costs to WIC cost objectives (and to other FNS programs if applicable). If the State agency submitted a random moment sampling system (RMSS) and the FNSRO does not have sufficient statistical expertise to review it, then the FNSRO shall forward the State agency's submission to FNS Headquarters for review.

   A FNSRO that reviews a substitute system to obtain satisfaction regarding the resulting distribution of salary costs to WIC shall notify the cognizant agency that it has done so. The FNSRO shall advise the cognizant agency of any significant deficiencies noted in the State agency's submission, and of the changes requested to correct them.

2. Local Agency Systems.

a. General. A State agency is responsible for rolling up the WIC salary costs incurred by its subgrantees to statewide summaries for use in preparing reports to FNS. Therefore, the State agency must require every local agency, regardless of the system it uses, to gather the same categories of employee time distribution data and submit these data to the State agency in the same format.

b. Cases Where all Subgrantee Funding is Pass-Through From State. If all Federal funding received by local agencies operating the WIC Program under the State agency's oversight consists of sub-awards passed through the State, cognizant agency review of a substitute system is not required. The State agency may prescribe such a system for use by its subgrantees in capturing employee time and effort data.

c. Cases Where Subgrantees Have Direct Federal Funding. If a local agency under a State agency's oversight receives direct awards from one or more Federal agencies, the Federal agency that provided the greatest share of such direct awards to a local agency is that local agency's cognizant Federal agency. The State agency shall coordinate with such cognizant agency to determine that any substitute data gathering system it has approved for the local agency meets the State agency's information and reporting needs. The State agency shall prescribe data gathering systems for all remaining local agencies under its oversight as outlined in paragraph C.2.b., above. If a local agency's cognizant Federal agency has not approved a substitute system for such local agency and the State agency has prescribed one for local agencies that receive only pass-through funds, then the State agency shall seek the cognizant agency's approval of that substitute system for the local agency.

D. Use of Budget Projections in Reporting Salary Costs.

Regardless of the system used to document the distribution of employees' time and effort to programs, it should be noted that budget estimates or other distributions of services established before the employees perform the services do not qualify as support for salary costs charged to WIC and other Federal programs. Budget estimates may only be used for interim accounting and reporting purposes. If they are so used, the budgeted amounts must be periodically reconciled to reflect actual amounts. (A-87, Attachment B, paragraph 11.h.(5)(e))

3010 CONTINUOUS TIME REPORTING

A. Principles.

1. Data to be Used.

Employees not eligible for the exceptional cases outlined in paragraphs 3000 B.1. and B.2. of this chapter shall record their compensated time by program/cost objective.

2. Data Gathering Process.

a. Except where special rules apply (per paragraphs 3000 B.1. and B.2. of this chapter), employees who work in two or more cost objectives shall record their time on a PAR which:

(1) shows the total number of hours for which the employee was compensated, including compensated absences (annual leave, sick leave, holidays, etc.).

(2) covers a period not longer than one month whose ending date coincides with the end of a pay period.

In State and local agencies with bi-weekly or semi-monthly pay periods, this document will generally cover two pay periods.

(3) is prepared and signed by the employee. PARs and other data gathering instruments described in paragraph 3000 B. of this chapter are not substitutes for agency payroll records. They are in addition to such records.

b. At a minimum, reportable categories on PARs must include: (1) the four WIC functions identified in section 3000 A. of this chapter; (2) each additional Federal program operated by the State or local agency; and (c) non-work time for which the employee is compensated (lunch, compensated absences, etc.).

c. The increments in which employees must report their time (hours, fractions of hours, etc.) depend on the complexity of their duties. Generally, duties that benefit multiple cost objectives during a workday require more detailed reporting than duties that benefit one or two cost objectives during that period.

d. The following conditions are necessary for this method to work:

(1) The State or local agency must gather data on 100 percent of each employee's compensated time. Therefore, the PAR must provide space for every program/cost objective that applies to the clinic or office and its employees.

(2) Employees must relate the services or tasks they perform to the specific cost objectives on which data must be gathered. Accordingly, instructions for PAR preparation must facilitate the

identification of specific tasks or services, or combinations of tasks and services, with codes for programs, functions, and other cost objectives.

(3) Employees required to complete PARs must record their time promptly. This method depends on employee recall; therefore, delays in recording their time may adversely affect the data's accuracy. An employee should record his/her time as soon as possible after performing duties relating to a cost objective, but never later than the close of business each working day. The frequency of an employee's recording interval should be related to the complexity of his/her duties; multiple tasks involving several different cost objectives require more frequent recording than large blocks of time spent working in the same cost objective. (ASMB C-10, paragraph 3-21, page 3-15)

(4) Reports must be collected and processed in a timely manner. State agencies and regional/area offices within the State must maintain systems of management control to identify missing or incomplete documents and follow up with the responsible office.

3. Use of the Data.

The State agency shall prescribe procedures for summing the data gathered at the clinic and local office level, and using it to charge employees' wages and salaries to applicable cost objectives. A simplified example of such a process is given in Table 3-1, below.

Table 3-1

ALLOCATION OF SALARY COSTS IN CONTINUOUS TIME REPORTING SYSTEM

Employee	WIC	MCH	Non-work	Total	Pay Rate	Total Cost	Work Hours	WIC Percent	WIC Cost
A	72	0	8	80	$14	$1,120	72	100	$1,120
B	19	57	4	80	$10	$800	76	25	$200
C	30	30	0	60	$7	$420	60	50	$210
Total	121	87	12	220		$2,340	208		$1,530

It should be noted that this procedure provides for the allocation of salary cost to cost objectives solely on the basis of work hours. Non-work time is not considered in the allocation because it may distort the results. For example, non-work time is substantial during the summer months when employees typically take vacations. During such periods, the consideration of non-work time could materially affect the allocation.

B. Advantages and Disadvantages.

1. Advantages.

a. This method provides complete, thorough documentation to support wages and salaries charged to WIC and other Federal health programs. A State agency that effectively used this method would be in a strong position to withstand audit.

b. The procedure for completing employee activity reports is relatively easy to learn. If sufficient instructions are provided, employees should be able to quickly incorporate completing the report forms into their daily routine.

c. This method literally follows the requirements of A-87. Therefore, the State agency would not need to obtain special approval from its cognizant Federal agency (or anyone else) to use this method.

2. Disadvantages.

a. This method is paperwork intensive. Employees may perceive it as burdensome.

b. Because it is conducted on an ongoing basis, it may be prone to becoming routinized. Efforts to accurately record the time worked in each cost objective may decline over time; management must be alert to employees becoming accustomed to reporting "stock" data.

c. Because this method depends on after-the-fact recall, it may not generate data as accurate as those generated by such methods as RMSS. Management must therefore stress the need for accurate reporting.

C. Application.

Unless the cognizant agency has approved another method, this method **must** be used to capture the time distribution of employees whose work benefits more than one cost objective. It would work best, however, in situations where employees' duties are fairly program-specific or involve relatively few cost objectives. Employees whose duties are generic or entail many shifts between cost objectives during the course of a workday would have the most difficulty identifying work with cost objectives or otherwise producing accurate data. An agency with many such employees should consider adopting the modified continuous time reporting method or the RMS system described in sections 3020 and 3030, respectively, of this chapter.

3020 MODIFIED CONTINUOUS TIME REPORTING

A. Principles.

This method is a variant of the continuous time reporting method described in section 3010, above. Except as explained in this section, it operates in the same way.

1. Data Gathering Process.

In addition to the reportable space for programs and other discrete cost objectives, the personnel activity report provides for the reporting of time spent performing common activities that are not readily identifiable to recognized cost objectives. Examples of such activities may include appointment scheduling, client in-take, nutrition and health screening for multiple programs that included WIC, etc. Employees who perform such generic duties report the time they spent doing so in the space designated for that purpose. Employees whose work time is devoted partially or fully to other duties report time spent performing such duties under applicable cost objectives as they would in a continuous time reporting system. Likewise, governmental employees engaged solely in a single cost objective would prepare the semi-annual certifications described above.

2. Use of the Data.

Data on employee time and effort in discrete cost objectives are used to identify salary costs and roll them up to State totals, as described in section 3010, above. However, salary costs associated with employee time and effort reported in common activities are allocated to programs and other cost objectives on a reasonable basis. Examples of such bases include:

a. Weighted Case Counts.

The cost of work performed in common activities may be allocated to programs and other cost objectives on the basis of weighted case counts. The case counts should be weighted in a manner that reflects differences between programs in eligibility determination and case management requirements. Such requirements can differ along such dimensions as complexity, amount of data that must be collected, and/or length of time required to determine eligibility for program benefits.

b. Costs of Staff Supported by Generic Workers.

The cost associated with work performed in common activities may be allocated to programs and other cost objectives on the basis of the time and effort distribution of workers that the generic workers support. That is, 40 percent of the cost associated with work performed in common activities would be assigned to WIC if 40 percent of the salary cost incurred in other activities for a reporting period (both on PARs and on semi-annual certifications) had been incurred in WIC.

B. Advantages and Disadvantages.

1. Advantages.

This method retains the advantages of the continuous time reporting method while providing relief for those employees whose duties are the most difficult to identify to specific programs or other cost objectives.

2. Disadvantages.

a. If a State or local agency allocates salary costs associated with common activities by weighted case counts, it will

need to devise a weighting scheme meeting the conditions of paragraph A.2.a., above. Setting up a data gathering system may therefore require more work.

c. Because this method entails a departure from the "pure" continuous time reporting model, its use would require cognizant agency approval.

C. Application.

This method would be appropriate for an office or clinic with employees whose duties are so generic that they cannot be readily identified to programs and other cost objectives. Where to draw the line between situations where this method is appropriate and situations where continuous time reporting should be used is a matter of professional judgment.

3030 PERIODIC TIME REPORTING

A. Principles.

This method is similar to continuous time reporting, and could be presented to the cognizant agency as a substitute for it. Rather than reporting 100 percent of their time continuously throughout a fiscal year, employees report their activities for designated periods of time during the fiscal year. During these designated periods, employees not eligible for one of the exceptional cases described in paragraphs 3000 B.1. and B.2. of this chapter are required to complete PARs. The amount of time that employees spend in each program or other cost objective during these designated periods is used to calculate the amount of compensated time that should be assigned to each program or other cost objective in which the employee worked during the fiscal year as a whole.

1. Data to be Used.

As with continuous time reporting, use of this method requires the gathering of data on the amount of compensated time each employee spent working in each applicable cost objective.

2. Data Gathering Process.

a. The method of data gathering is the same as is used in a continuous time reporting system: data are gathered on the amount of compensated employee time spent performing WIC and non-WIC activities. However, such data are gathered only during designated periods of time throughout the fiscal year. As with continuous time reporting, an employee not eligible for one of the exceptional cases described in paragraphs 3000 B.1. and B.2. of this chapter completes PARs covering the designated periods of time. These documents should:

(1) show the number of hours the employee worked in each cost objective;

(2) cover not more than one month whose end coincides with the end of a pay period; and

(3) be signed by the employee.

b. To provide an accurate representation of the actual distribution of employees' time for cost allocation purposes, a periodic time reporting system must satisfy the following conditions:

(1) While periodic time reporting is not a statistical method, the periods of time designated for data gathering must collectively provide a representative sample of the overall distribution of employee time and effort that can be projected to

the fiscal year as a whole. At a minimum, all participating employees engaged in two or more cost objectives should be required to complete PARs for a period of either one week per month or one month per calendar quarter.

(2) The PAR and related instructions must provide for reporting on every program and/or activity in which participating employees worked.

(3) The coding instructions must enable employees to clearly relate the activities or services they perform to programs or other cost objectives for which data are captured. As with continuous time reporting, non-work time must be separately identified.

(4) The PAR must provide for accounting for 100 percent of an employee's compensated time during the time periods during which data are collected.

(5) The data are collected with sufficient frequency to capture material fluctuations in employees' time distribution among programs and other cost objectives over the course of the fiscal year. If this condition cannot be met, the State or local agency should consider shifting to continuous time reporting or modified continuous time reporting (per sections 3010 or 3020, respectively, of this chapter).

3. Use of the Data.

The State agency should prepare formal written internal procedures, which explain how the data are to be used in developing salary costs associated with each cost objective. Periodic time reporting is similar to continuous time reporting.

It differs mainly in the timing of data collection on employees engaged in two or more programs or other cost objectives. In addition to the common features, therefore, procedures for periodic time reporting must explain how data drawn from sampled time periods are used to assign salary costs for periods when data are not gathered. The State agency may, for example: (a) calculate allocation percentages from the data collected in October of a fiscal year; (b) use these percentages to allocate salary costs of November and December; (c) recalculate the allocation percentages on a year-to-date basis after gathering data during January; (d) apply the new allocation percentages to salary costs of January through March; and so forth.

B. Advantages and Disadvantages.

1. Advantages.

a. This method provides a good tool for allocating salary costs without the same volume of paperwork required by continuous time reporting.

b. As with continuous time reporting, the procedure for completing PARs is relatively easy to learn. Employees are generally able to quickly incorporate completing report forms into their daily routine.

c. The method of allocating salary costs of generic workers, described under "Modified Continuous Time Reporting," above, could be used with this method as well as with continuous time reporting.

2. Disadvantages.

a. Because it is practiced only during designated periods of time, employees may view this method as disruptive to their primary mission of providing health care.

b. As with continuous time reporting, some employees may be tempted to postpone completing report forms until the end of a week or even the entire report period. This may result in an inaccurate account of their activities.

c. Cognizant agency approval is required.

C. Application.

Periodic time reporting is a "substitute system" that can be used only with the approval of the cognizant Federal agency. If approved, this method would be appropriate for an office/clinic that has employees engaged in two or more programs and/or other cost objectives. It would be particularly applicable to organizations whose employees generally experience a stable distribution of their duties among cost objectives over time. The more this distribution fluctuates, the greater the risk that a material shift in time distribution will not be captured during a period designated for data gathering.

3040 RANDOM MOMENT SAMPLING

A. Principles.

A random moment sampling system (RMSS) is a statistically valid method for capturing the amount of time that workers spend on various programs and other cost objectives. It is a "substitute system," which a State or local agency may use after the cognizant Federal agency has given approval. Using employees' total time as the universe, a statistically valid sample of moments in time (dates and times) is selected for each employee whose compensation is to be allocated by RMSS. At each such moment, an observer or monitor records what the employee is doing and (if applicable) the program or other cost objective in which the employee is engaged. The data gathered thereby are used to allocate salary costs to cost objectives.

1. Data to be Used.

When designing the sampling plan and observation form, a State or local agency must give careful attention to defining the population of employees to be sampled and the programs and/or other cost objectives whose costs are to be allocated through the RMSS. The universe from which moments will be selected must encompass all employees to be sampled and all moments of work, including work performed under alternative work schedules if applicable. The employees to be sampled may be limited to those engaged in direct client contact.

Once the population to be sampled is defined, a sampling plan must be designed to pull a statistically valid sample of employees' time. In determining the size of the sample to be pulled, the agency must ensure that the sum of observations of employee activity (often called "hits" or "strikes") is statistically valid. The sample must provide for observations of non-program activity, such as leave, breaks, lunch, etc. It must also accommodate "non-strikes," which occur when a worker is not available for observation at the designated time. Additionally, it may be necessary to stratify the sample in order to accurately measure employee time and effort in activities that are performed only infrequently or in certain localities.

2. Data Gathering Process.

Under most RMSS's, some agency workers are designated as monitors or observers and trained to observe and record the activities of employees at the moments selected by the system. This can be done through telephone contacts from a central location or through personal contacts by observers assigned to each office. Periodically, an observer receives a list of the sample of moments to be observed, including the employee, day and time of day.

At the specified time, the observer contacts the employee and identifies the program or other activity in which the employee is engaged. The observer records the information on an observation form. At a minimum, the completed form should identify the worker, data, time, and activity or program. It should also contain a statement, to be signed by both the observer and the worker, attesting to the accuracy of the observation. The form may also indicate the client case number related to the observation, if applicable.

3. Use of the Data.

The individual observations would be compiled for a period of time and the percentages of time spent on each program/activity would be calculated. These percentages would then be applied to the total costs to be distributed via the RMSS. If, for example, ten percent of the total observations were for WIC nutrition education, then ten percent of the salaries for the sampled employees would be identified as WIC nutrition education. The time distributions resulting from the study might then be used to allocate the salaries of related supervisory, clerical, and support staff, whose duties are less readily identifiable to programs, functions, and activities.

B. Advantages and Disadvantages.

1. Advantages.

a. Because an RMSS is a time study based on a statistically valid sample of moments, it is less intrusive and requires less effort by employees than the other methods discussed in this guide.

b. RMSS results are considered more accurate than the other methods discussed herein because they do not rely on employees' after-the-fact recall or their willingness or

ability to record data promptly over an extended period of time.

2. Disadvantages.

a. RMSS requires greater resources than the other methods discussed in this guide. For example, an agency that wishes to construct an RMSS must have expertise in statistical methodologies; if this expertise is not available in-house, the agency may need to engage a consultant. Monitors and observers must be trained to operate the system after it is in place. Thus, an RMSS requires more special skills and may be more expensive to set up and operate than the other methods.

b. For RMSS results to be valid, the observations must be made in strict compliance with the moments statistically selected for each worker. There is little or no room for errors or oversight.

C. Application.

As a "substitute system," an RMSS would require approval by the cognizant Federal agency. It would be appropriate for an agency with a large group of employees who perform similar activities that benefit WIC and non-WIC programs. The larger the population of participating employees, the fewer the number of observations that will be required of each employee. Accordingly, this method may work best for States in which both State and local offices are staffed with State employees; in such cases, the RMSS can be operated on a statewide scale.

CHAPTER IV
METHODS FOR CHARGING NON-SALARY COSTS

4000 OVERVIEW

The fundamental principle for assigning non-salary costs to cost objectives is the same as for salary costs: a State or local agency assigns a cost item incurred solely for a single cost objective to that cost objective; a cost incurred for multiple cost objectives must be distributed to such cost objectives such that each bears a portion of the cost commensurate with the benefit received from it. When allocating shared non-salary costs to several different programs or other cost objectives, it is important to group pools of costs to be allocated and select bases for allocating such costs in a manner which will produce equitable and reasonable charges to each cost objective.

4010 BASES FOR DISTRIBUTING SHARED SERVICES

The following table lists suggested bases for distributing shared costs. The suggested bases are not mandatory for use. Any base which produces an equitable distribution of cost may be used. These bases may be used to distribute and directly charge non-salary costs not covered in an indirect cost agreement approved by the cognizant agency or to negotiate an indirect cost agreement with the cognizant agency.

TYPE OF SERVICE	SUGGESTED BASES FOR ALLOCATION
Accounting	Number of transactions processed.
Budgeting	Direct hours of identifiable services of employees of central budget.
Buildings lease management	Number of leases.
Data processing	System usage.
Disbursing service	Number of checks or warrants issued.
Employees retirement system administration	Number of employees contributing.
Insurance management service	Direct hours.
Legal services	Direct hours.

TYPE OF SERVICE	SUGGESTED BASES FOR ALLOCATION
Mail and messenger service	Number of documents handled or employees served.
Motor pool costs including automotive management	Miles driven and/or days used.
Office machines and equipment maintenance	Direct hours.
Office space use and related costs (heat, light, janitor services, etc.)	Square foot of space occupied.
Organization and management services	Direct hours.
Payroll services	Number of employees.
Personnel administration	Number of employees.
Printing and reproduction	Direct hours, job basis, pages printed, etc.
Procurement service	Number of transactions processed.
Local telephone	Number of telephone instruments.
Health services	Number of employees.
Fidelity bonding program	Employees subject to bond or penalty amounts.

4020 INEQUITABLE METHODS OF COST ALLOCATION

If a cost allocation method produces an inequitable distribution of costs, this may result in questioned or disallowed costs during a subsequent audit. The incidence of inequitable allocation of non-salary costs to the WIC Program occurs much less frequently than the incidence of inequitable allocation of salary costs to the WIC Program. However, the following are just a few examples that have been documented in recent audit reports:

A. Facility expenses (building use, janitorial services, utilities, etc.) had been allocated on the basis of the number of employees rather than the square footage occupied. This resulted in a disproportionate share of the total cost allocated to WIC. A tour of the facility revealed that the per-employee space was not consistent among programs. Typically, other programs that were co-located with WIC had much more space per employee than

did the WIC Program. Therefore, square footage occupied generally provides a more reasonable and equitable distribution of this cost.

B. Allocating professional liability insurance coverage to WIC based on the number of patient visits without regard to the risk involved in each visit produced inequitable charges to WIC. When contacted, the insurance company stated that WIC had been included in the insurance coverage at no additional charge due to its low risk. An equitable method for allocating malpractice insurance to WIC would consider the amount of the professional's time spent on WIC Program operations and the relatively low risk of the certification process.

C. Supplies (a pool of costs) allocated to WIC included supplies not used by nor allowable for the WIC Program, such as popcorn and toothbrushes for a health fair and flowers for an employee on sick leave. When allocating a pool of costs, the pool should consist only of allowable costs.

4030 EXPENSING EQUIPMENT PURCHASES

The preferred method of recovering the cost of a capital asset, such as equipment, is to claim depreciation expense or use allowance under A-87, Attachment B, paragraph 15 or A-122, Attachment B, paragraph 11, as applicable. However, a State or local agency may seek prior approval to charge the entire acquisition cost of the equipment to the Federal grant or subgrant for the fiscal year in which the purchase is made (that is, "expense" it). If more than a negligible portion of the "expensed" equipment's use is expected to benefit programs other than WIC, then WIC cannot bear the entire acquisition cost. Rather, the State or local agency must allocate the acquisition cost among programs on the basis of their anticipated respective benefit from the equipment's use.