**Department of Workforce Development**
**Division of Workforce Solutions**

# Financial Policy

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| **Applies to:** | Child Support Directors<br>County Department of Human Services Directors<br>County Department of Social Services Directors<br>Tribal Chairpersons<br>W-2 Agency Directors<br>Workforce Development Boards<br>All DWS Contract and Grant Agencies | **Issue Date: 12/20/2004** |
| **Topic:** | **Equipment** | |

## PURPOSE

This Financial Policy relates to the purchase, charging and disposal of equipment under Division of Workforce Solutions (DWS) grants and contracts. For this policy, equipment is considered an acquisition cost of $5,000 or more and includes information technology hardware and software. Items costing less than $5,000 are considered supplies and are expensed when incurred.

This policy supercedes all policies and program manuals relative to equipment issued previously by DWS.

## BACKGROUND AND POLICY RATIONALE

Cost Principles for DWS providers are set forth in OMB Circulars A-21 (Educational Institutions), A-87 (State, Local and Indian Tribal Governments) and A-122 (Private Agencies). In the section titled “Equipment and Other Capital Expenditures” (A-21 Section 18, A-87 and A-122 Section 15) Subpart (b) (5) it states in part:

“Equipment and other capital expenditures are unallowable as indirect costs.”

The U.S. Department of Health and Human Services (DHHS) and the U.S. Department of Labor (DOL) have both told DWS that “indirect” means via an indirect cost rate or any type of allocation (even simply splitting the cost between two contracts). It can also mean charging to a single contract funded by multiple sources such as our Wisconsin Works (W-2) or WETAP funding. The subpart goes on to say that charges for depreciation and use allowances are allowable.

Subpart (b) (1) of the same section states:

“Capital expenditures for general purpose equipment, buildings and land are unallowable as direct charges, except where approved in advance by the awarding agency.”

Both DHHS and DOL tell DWS that we can only approve expensing of equipment as a direct charge. They define “direct” as a single contract funded by a single source of funds. There can be no allocations involved at any level.

To the best of our knowledge, all DWS providers have multiple funding sources. In addition, much of our funding, including TANF and WETAP, comes from multiple sources. Therefore, the

OMB Circulars prohibit DWS from approving the expensing of equipment by providers. All equipment must be charged via depreciation or use allowances.
This approach has several advantages including:

- The providers own and have title to all equipment. DWS grants and contracts merely “rent” the equipment via depreciation or use allowances. So, providers do not need to obtain DWS prior approval to purchase equipment.

- Likewise, the provider can dispose of equipment at any time and in any way without DWS approval.

- When providers dispose of equipment, there is no recovery to be paid to the Federal government since there is no Federal ownership interest. This also means no reversionary lists need to be maintained on equipment that is not expensed.

- Providers can conform to GAAP accounting. Expensing of equipment is not in accordance with GAAP.

- It is more equitable. For example, suppose a provider buys and expenses an item of equipment today and then in 6 months obtains a new contract for another program. The new program would use the equipment but never share in its cost. However, if the equipment is being depreciated, the depreciation can be allocated to the new contract in proportion to the benefit received.

- It allows for a more consistent level of services under smaller programs. If equipment is expensed when purchased, a small contract must absorb the entire cost at once reducing the funds available for services in that year. However, depreciation allows the costs to be spread evenly over several years.

**POLICY**
Providers must follow OMB Circulars A21, A-87 or A-122 as they pertain to the purchase, charging and disposal of equipment under DWS grants and contracts. Under the Circulars, Equipment may only be charged to DWS contracts/grants through depreciation or use allowances over the life of the item. Providers do not need to obtain prior approval from DWS to purchase equipment. However, if you believe you have a single contract funded by a single source and plan to purchase equipment, please contact DWS for direction.

Serial purchases may not be used to circumvent the $5,000 threshold for equipment. If components are intended to be used together and cannot function separately, they are considered one unit of equipment. Items are considered one unit even if the units are of different brands or are purchased separately. If the unit acquisition cost exceeds $5,000, the item must be charged via depreciation or a use allowance. If you have questions concerning what constitutes a “unit”, please contact DWS.

A combination of depreciation and use allowances may not be used in connection with a single class of assets (e.g. office equipment). For depreciation, DWS strongly encourages the use of the straight-line depreciation method. Other methods will be considered on a case by case basis. Please contact DWS if you wish to use an alternate method.

The useful life established for an asset is based on Generally Accepted Accounting Principles (GAAP) and should take into consideration such factors as type of construction, historical usage patterns, technological developments and the replacement policies of the agency. Useful life periods used for contract/grant equipment must be consistent with the useful life periods used for non-contract/grant equipment at the Agency. Useful life periods must be 3 years or more except in very unusual circumstances. If you feel a useful life of less than 3 years is justified in a particular situation, please contact DWS for approval.

Providers may dispose of equipment charged to the DWS via depreciation or use allowances without involvement by the DWS. Providers may have old equipment that was expensed at the time of purchase (rather than charged via depreciation or use allowance) to DWS contracts/grants under previous policies. If the Provider wishes to dispose of such equipment, and that equipment has useful life remaining, please contact DWS for disposal instructions. Disposal methods will be determined on a case by case basis.

Equipment will be examined as part of the Single Audit and DWS monitoring visits. Essentially the examination will include determinations as to whether the depreciation or use allowance (1) is for equipment that is contract related, (2) is for equipment that is not excessive (a Porsche when an Escort would suffice), (3) uses a reasonable calculation method and life expectancy, (4) is adequately supported by accounting and inventory records and (5) ends when it should.

**DEFINITIONS:**

**Acquisition Cost** – The net invoice price plus the cost of installation and any modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for the purpose for which it is purchased.

Example of Acquisition Cost

| Office communication system for 25 staff | |
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| Switch Board | $3,000 |
| Telephones | 3,000 |
| Centrex | 500 |
| Installation | 2,000 |
| Total cost of system | $8,500 |

**Equipment -** An article of tangible property having a useful life of more than one year and an acquisition cost of $5,000 or more. A limited list of examples is information technology hardware and software, other office equipment and office furniture. Items costing less than $5,000 are considered supplies and are expensed when incurred.

**Depreciation –** A means of allocating the cost of equipment to the time periods benefiting from the use of the assets. Depreciation methods include straight line (costs are equally spread over each period covered by the asset's useful life) and accelerated (costs are higher in early periods and lower in later periods of the asset's life). Note that the straight-line method is encouraged to be used for DWS contracts/grants.

**Serial Purchases** – Successive purchases that are customarily made as a single purchase but divided into separate purchases to avoid the requirements of prior approval and/or depreciation of equipment. Such purchases are treated as a single purchase for approval and depreciation purposes.

**Use Allowances –** A means of allocating the cost of equipment to the time periods benefiting from the use of the assets based on actual usage. For example, a vehicle may have a useful life of 100,000 miles and an acquisition cost of $25,000. The use allowance would be $.25 per mile ($25,000/100,000 miles). The actual mileage times the mileage rate would be expensed during each time period.

## Equipment Ownership and Inventory

The provider will be responsible for the installation, maintenance and security of equipment in which its use was reimbursed with DWS funds. The provider will be responsible for arranging and paying for all regular service and emergency repairs necessary to keep the items in good working order and will also be responsible for replacing any damaged equipment.

DWS reimbursement of depreciation should be considered reimbursement for usage while under contract with the Division. The ownership of the equipment remains with the provider, as does the responsibility for reimbursing the vendor for the purchase of the equipment.

The provider must maintain adequate inventory records as well as records to support the charging of depreciation or use allowances.

## Leasing

Providers who wish to lease equipment must follow the provisions of the Attachment B Section titled “Rental costs of buildings and equipment” in OMB Circular A-21 (Section 43), A-87 (Section 37) or A-122 (Section 43).

## QUESTIONS

Contact Mark Macke, (608 266-5309 or email mark.macke@dwd.state.wi.us) or Jim Foelker, (608 266-3623 or email james.foelker@dwd.state.wi.us) in the DWS Grants & Contracts Section.