

Indirect Cost Rates and Cost Allocation Plans

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Presentation Outline

Indirect Cost Rates and Cost Allocation Plans Overview

- General Concepts
- Key Consideration
- Examples in Findings

Allocating One-Stop Center Costs

- Background
- Costs and Fund Sources
- How Costs are Charged to Each Partner
- Cost Pools and Allocation Bases
- Cost Allocation Methodology

Overview

Part I provides an overview of indirect cost rates and cost allocation plans. Part II will focus on how one-stop center shared costs are allocated to participating partners based on proportional benefit received.

Part I: General Concepts

What are Indirect Costs?

Indirect costs means those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved (2 C.F.R. § 200.56).

What are Cost Allocation Plans (CAPs) and Indirect Cost Rates (IDCRs)?

CAPs and IDCRs are the means by which costs are identified in a logical and systematic manner for reimbursement under Federal awards.

- CAPs are an allocation methodology that use various allocation methodologies to distribute allowable direct and indirect costs to benefiting cost objectives.
- IDCRs are an allocation methodology which combines all indirect costs over one approved allocation base to arrive at a percentage used to determine what each direct cost objective should share of the indirect costs.

What do Direct and Indirect Costs Mean?

- Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy (2 C.F.R. § 200.413)
- Indirect costs are incurred for a common purpose benefiting more than one cost objective, and are not readily assignable to a single benefitting cost objective.

Why are CAPs or IDCRs Necessary?

- Compliance with 2 C.F.R. part 200 (Uniform Guidance)
- Documentation for Auditors
- Management Information

What is the Cognizant Agency?

Cognizant agency means the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost rate proposals developed under Appendix VII to 2 C.F.R. part 200 on behalf of all Federal agencies. The cognizant agency is determined by the greatest amount of Federal funding awarded from a Federal agency to a State governmental unit or as otherwise based on a designation by OMB.

General Concepts

As defined in 2 C.F.R. §§ 200.27 & 200.416, the definition and how a cost allocation plan is used:

- Central service cost allocation plan (a.k.a., Statewide cost allocation plan (SWCAP)) (HHS is cognizant agency);
- Indirect cost rate proposal which could include cost allocation plan for SWCAP or local central service costs (Cognizant agency is the agency providing the highest total amount of direct funding); and
- Public assistance cost allocation plan (HHS is cognizant agency).

State Agency Cost Allocation Plan

As specified in 2 C.F.R. 200, Appendix VII, F. Other Policies, 3:
In certain situations, governmental departments or agencies (components of the governmental unit), because of the nature of their Federal awards, may be required to develop a cost allocation plan that distributes indirect (and, in some cases, direct) costs to the specific funding sources. In these cases, a narrative cost allocation methodology should be developed, documented, maintained for audit, or submitted, as appropriate, to the cognizant agency for indirect costs for review, negotiation, and approval.

Cost allocation plans are to be approved by the cognizant agency for reviewing and approving indirect cost for your organization.



What is a Central Service Cost Allocation Plan?

2 C.F.R. part 200, Appendix V defines the central service cost allocation plan as the documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a governmental unit on a centralized basis to its department and agencies.

Important Terms

- A **central service cost allocation plan** is the process used to allocate certain services on a centralized basis (e.g., motor pools, computer centers, purchasing, accounting, etc.) that may not be performed within the scope of the individual entity receiving the award. The process must allocate these costs to the benefiting program in a reasonable and consistent manner.
- An **allocation base** is the method of documentation used to measure the extent of benefits received when allocating joint costs among multiple cost objectives. When costs cannot be directly assigned to a final cost objective, the costs are placed in a cost pool that will be allocated at a later time to the benefiting partner programs.
- A **cost pool** is a group of common costs, to be allocated at a later time to the benefiting partner programs, by using an indirect or approximate measure of benefit.

Warning!

While a central service cost allocation plan typically results in regular billing that is applied to grant award funds, it is important for the designated State unit (DSU) to maintain oversight over all that is being charged to the award through the approved plan. Any costs included in the billing that do not reflect the proportional share of actual costs to the award must not be charged to the award.

- For example, if the CAP includes the cost of central services staff to issue vendor payments, but DSU staff issue vendor payments directly, the DSU could not pay duplicate costs for issuing vendor payments.

What Else do I Need to Know?

- States that wish to charge the costs of central support services to Federal awards must first prepare a State-wide cost allocation plan (SWCAP) to allocate those costs to departments or units they benefit.
- States are required to submit a SWCAP to HHS for each year in which it claims central service costs under Federal awards.
- Costs omitted from this plan will not be reimbursed.
- This information can be found at 2 C.F.R. § 200 App.V.F.1.

What is an Indirect Cost Rate Proposal?

An indirect cost rate proposal is the documentation prepared by the governmental unit or subdivision thereof to substantiate its request for the establishment of an indirect cost rate (2 C.F.R. § 200.57)

How is an Indirect Cost Rate Calculated?

Indirect Cost Pool / Direct Cost Base =
Indirect Cost Rate

What is an Indirect Cost Pool?

Departmental Administrative Costs +
SWCAP = Indirect Cost Pool

Administrative and Clerical Staff Salaries

The salaries of administrative and clerical staff should normally be treated as indirect (F&A) costs per 2 C.F.R § 200.413(c).

Direct charging of these costs may be appropriate only if all of the following conditions are met:

- 1) Administrative or clerical services are integral to a project or activity;
- 2) Individuals involved can be specifically identified with the project or activity;
- 3) Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and
- 4) The costs are not also recovered as indirect costs.

What are the Submission Requirements for Plans?

According to 2 C.F.R. § 200, App.V.D.4, cost allocation plans and indirect cost rate proposals must be:

- Developed and submitted within six months after the close of the entity's fiscal year;
- Submitted as required to the cognizant agency;
- Inclusive of all units desiring to claim indirect costs; and
- Maintained on file if submission is not required.

The Department of Education is currently requiring a submission for all grantees.

Key Considerations

Per 2 C.F.R. § 200.403, grantees are responsible for ensuring that costs are:

- Allowable;
- Reasonable;
- Treated consistently;
- Consistent with Generally Accepted Accounting Principles (GAAP);
- Allocable to the Federal program;
- Proportional to benefit received; and
- Adequately documented.

Key Considerations

HEADS-UP!

Abnormal/Mass Severance Pay (2 C.F.R. § 200.431(i))

- Severance payments, but not accruals, associated with normal turnover are allowable. Such payments shall be allocated to all activities of the governmental unit as an indirect cost.
- Abnormal or mass severance pay will be considered on a case-by-case basis and is allowable only if approved by the cognizant Federal agency.

Key Considerations

Mass Severance: Definition

Mass severance or termination benefits would include all expenses associated with the event. This would include: lump sum payments that may be linked to years of service, increased pension benefits such as granting additional years or eliminating penalties for early retirement, payments of unused leave, and the cost of any other incentive offered to employees as an incentive to leave government service, such as buy-outs.

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Key Considerations

Mass Severance: Prior Approval

The costs of these special termination benefits must be determined and prior approval of such costs must be obtained from the Federal cognizant office prior to claiming these costs directly or indirectly against Federal programs. The requests for prior approval, at a minimum, must demonstrate the reasonableness and allocability of such costs to Federal programs.

Key Considerations (cont.)

Mass Severance: Prior Approval Review

- Ability to demonstrate costs are allowable to Federal award;
- Buy-out should be government-wide;
- Plan should address estimated savings, total and Federal, in both dollars and number of employees;
- Governmental unit should analyze the effect the downsizing will have on the operation, continuity, and effectiveness of programs; and
- Governmental unit and the cognizant agency must establish an agreement providing for compensation to the Federal Government should the terms and conditions of the buy-out/severance plan not be met.

HEADS-UP!

Termination leave

- When a governmental unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and for which leave is paid.
- Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component. (2 C.F.R. § 200.431(b)(3)(i))

HEADS-UP (cont.)

Cost Shifting

Costs can't be shifted to different awards to avoid funding deficiencies or to circumvent restrictions.
(2 C.F.R. § 200.405(c))

Key Considerations Treatment of Indirect Costs for Purchased Services

Due to the significant amount of funds expended for goods and services purchased for consumers under VR, Supported Employment, and IL-OIB programs, grantees must take care to treat such costs correctly for purposes of indirect cost recovery.

A grantee's approved indirect cost rate is calculated by using a Modified Total Direct Cost (MTDC) base (denominator) and a numerator of accumulated indirect costs.

Indirect Cost Pool / **Modified Total** Direct Cost Base = Indirect Cost Rate

The definition of MTDC specifically excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of \$25,000 (2 C.F.R. § 200.68).

Key Considerations

Treatment of Indirect Costs for Purchased Services (cont.)

Services purchased for consumers are treated as participant support costs under the definition of MTDC. Therefore, when calculating the MTDC, the cost of purchased services for consumers must be excluded from the MTDC base. Costs that must be excluded from the MTDC base include:

- Expenses for higher-education (e.g., tuition, books, room and board);
- Equipment (e.g., vehicles);
- Maintenance (e.g., mileage reimbursement);
- Medical; and
- Other services purchased to benefit applicants and consumers under the Rehabilitation Act.

Purchased services for consumers are those services purchased by the grantee to support the consumer's employment or independent living goal. Because it is not the grantee that is providing the service, inclusion of purchased services in the MTDC base would result in an over-recovery of indirect costs allocated back to the benefiting program.

Examples in Findings RSA has Identified Related to SWCAPs Include:

- Agencies paying duplicate costs, such as an agency being charged for central billing services that were conducted directly by agency staff;
- A cost allocation plan structure that does not permit units to assign costs to multiple cost objectives within the unit;
- SWCAP expenses not being allocated to the required programs/awards; and
- Agencies being charged through SWCAPs for expenses not allocable to the award.

Examples in Findings RSA has Identified Related to Indirect Costs Include:

- Not having a current, approved CAP or IDCR;
- Costs/salaries included in plan/proposal not allocated to appropriate programs;
- Inconsistency in charging costs as direct or indirect between Federal awards;
- Costs that do not benefit the award are inappropriately allocated via the IDCR; and
- Not receiving prior approval to charge administrative and clerical staff salaries directly to an award that does not have an approved IDCR.

Resources

- Uniform Guidance:
<https://www2.ed.gov/policy/fund/guid/uniform-guidance/index.html>
- *A Guide for State, Local and Indian Tribal Governments: Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government:* <https://rates.psc.gov>
- HHS –ASMB C-10 & Other Reference Information -
<http://rates.psc.gov/>
- Education Department General Administrative Regulations (EDGAR) -
<http://www.ed.gov/policy/fund/reg/edgarReg/edgar.html>
- Internal Controls:
<https://www2.ed.gov/policy/fund/guid/uniform-guidance/internal-controls.html>

PART II: Allocating One-Stop Center Costs

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Background

One-Stop Operating Center MOU Development

- The Local Board, with the agreement of the Chief Elected Official (CEO), must develop and enter into an MOU with the One-Stop Partners, concerning the operation of the one-stop delivery system in a local area.
- The **Infrastructure Funding Agreement (IFA)** is the component of the MOU that **describes the manner in which infrastructure costs are to be shared and allocated among one-stop partners**, as governed by WIOA, its implementing regulations, and the Uniform Guidance Cost Principles at 2 C.F.R. part 200.
- IFAs are a mandatory component of the local MOU, described in WIOA sec. 121(c) and 20 C.F.R. §§ 678.500 & 678.755, 34 C.F.R. §§ 361.500 & 361.755, and 34 C.F.R. §§ 463.500 & 463.755. Similar to MOUs, the Local WDB may negotiate an umbrella IFA or individual IFAs with partners for one or more of its one-stop centers.

Costs and Fund Sources

One-Stop Infrastructure Costs

Infrastructure costs - Section 121(h)(4) of WIOA defines infrastructure costs as non-personnel costs for the general operation of the center, including:

- Rental costs of the facilities;
- Costs of utilities and maintenance;
- Equipment (including assessment-related products and assistive technology for individuals with disabilities); and
- Technology to facilitate access to the one-stop center, including its planning and outreach activities.
- Additionally, 34 C.F.R. § 361.700(b) permits the Local WDBs to consider common identifier costs as costs of one-stop infrastructure.

The costs of partner program staff working on information technology systems and shared welcome desk employees are personnel expenses. These costs; therefore, could not be included in infrastructure costs but are included as “additional costs” in the one-stop operating budget.

Costs and Fund Sources

Other/Additional One-Stop Costs

- Other Funds: Section 121(i) of WIOA indicates, subject to MOU development at the local level, a portion of one-stop partner funds or noncash resources shall be used to pay additional costs related to the operation of the one-stop delivery system, including career services and common costs not included under infrastructure.
- Shared services include initial intake, assessment of needs, appraisal of basic skills, identification of appropriate services to meet such needs, referrals to other one-stop partners, and other similar services.

Costs and Fund Sources

One-Stop Infrastructure Fund Sources

Infrastructure costs identified through an IFA are provided as one of the following:

- Cash contributions, which are cash funds provided to the Local WDB or its designee by one-stop partners, either directly or by an interagency transfer;
- Non-cash contributions, which are comprised of fairly evaluated—
 - expenditures incurred by partners on behalf of the one-stop center; and
 - non-cash contributions or goods or services contributed by a partner program and used by the one-stop center; and
- Third-party in-kind contributions, which are contributions of space, equipment, technology, non-personnel services, or other like items to support the infrastructure costs associated with one-stop operations, by a non-one-stop partner to support the one-stop center in general, or a specific partner.

Costs and Fund Sources

One-Stop Third-Party In-Kind Contributions

Third-party in-kind contributions are contributions of space, equipment, technology, non-personnel services, or other like items by a non-partner (i.e., a third-party) to support the infrastructure costs associated with one-stop operations. The value of third-party in-kind contributions must also be consistent with the Uniform Guidance at 2 C.F.R. § 200.306 and reconciled on a regular basis (i.e., monthly or quarterly) to ensure they are fairly evaluated and, if contributed on behalf of a particular program partner, meet the partner's proportionate share.

There are two types of third-party in-kind contributions: (a) general contributions to one-stop operations (i.e., those not connected to any individual one-stop partner); and (b) those made specifically to a one-stop.

How Costs are Charged to Each Partner

One-Stop Local Funding Mechanism

Section 121(h)(1)(A)(i) of WIOA and 34 C.F.R. § 361.715 indicate in the local funding mechanism (LFM), the Local WDB, chief elected officials, and one-stop partners agree upon calculation methodologies for amounts each partner will contribute for one-stop infrastructure funding.

- The LFM is preferable because local entities come to agreement without relinquishing control.
- WIOA does not place any limitations on contributions under the LFM. Program or administrative funds may be used to fund a partner's contribution.
- Partner programs' contributions must be in compliance with their Federal authorizing statutes and other applicable legal requirements, including administrative cost limitations; and must represent each partner's proportionate share, consistent with the Uniform Guidance.
- Partner shares must be periodically reviewed and reconciled against actual costs incurred, and adjusted to ensure that actual costs charged to any one-stop partners are proportionate to the use of the one-stop center and relative to the benefit received by each partner and its respective programs or activities (§ 361.715(a)(4)).

How Costs are Charged to Each Partner

One-Stop State Funding Mechanism

Section 121(h)(1)(A)(ii) of WIOA and 34 C.F.R. § 361.730 indicate the State-funding mechanism (SFM) is triggered when the Local WDB, chief elected official, and local one-stop partners in a local area do not reach consensus agreement on methods to fund one-stop centers infrastructure costs for a program year. The Governor determines one-stop partner contributions after consultation with chief elected officials, Local WDBs, and the State WDB. The determination involves—

- Application of a budget (determined locally or through the State WDB formula process);
- Local one-stop partner program's proportionate use of the one-stop delivery system and relative benefit received;
- Establishing a cost allocation methodology to determine partner programs' proportionate shares of infrastructure costs;
- Calculation of required statewide program caps on contributions to infrastructure costs from one-stop partner programs in areas operating under the SFM (§ 361.738); and
- Ensuring the aggregate total of the infrastructure contributions according to proportionate share required of all local partner programs in local areas under the SFM do not exceed the cap for that particular program.

Local WDBs and one-stop partners lose control in determining their one-stop partner contributions, which is why the local mechanism is preferred.

How Costs are Charged to Each Partner

Regardless of which mechanism is used to determine partner contributions, the MOU must include identification of an infrastructure and shared services **budget** that will be **periodically reconciled against actual costs** incurred and adjusted accordingly to ensure that it reflects a **cost allocation methodology** that demonstrates how infrastructure costs are charged to each partner **in proportion to its use** of the one-stop center **and relative benefit** received, and that complies with 2 C.F.R. part 200. (34 C.F.R. § 361.755(b))

How Costs are Charged to Each Partner

What is Cost Allocation?

Cost allocation means the **process of assigning a cost, or a group of costs, to one or more cost objective(s)**, in reasonable proportion to the benefit provided or other equitable relationship. The process may entail assigning a cost(s) directly to a final cost objective or through one or more intermediate cost objectives. (2 C.F.R. § 200.42)

How Costs are Charged to Each Partner

Allocation of Costs

To understand the process of cost allocation for one-stops, it is important to have some knowledge of the following terms:

- Cost Allocation
- Cost Objective
- Allocable Cost
- Proportionate Use
- Relative Benefit
- Allocation Base
- Input-Based Allocation
- Output- Based Allocation
- Allocation Base Acceptability Standards
- Cost Pool

How Costs are Charged to Each Partner

What is a Cost Objective?

Cost objective means a program, function, **activity**, award, organizational subdivision, contract, or work unit **for which**:

- Cost data are desired, and
- **Provision is made to accumulate and measure the cost** of processes, products, jobs, capital projects, etc.

A cost objective may be a major function of the non-Federal entity, a particular service or project, a Federal award, or an indirect (Facilities & Administrative (F&A)) cost activity, as described in Subpart E—Cost Principles of this Part. See also §§ 200.44 & 200.60. (2 C.F.R. § 200.28)

How Costs are Charged to Each Partner

What is an Allocable Cost?

A cost is allocable to a cost objective if it is assignable to that cost objective in accordance with **relative benefits** received (2 C.F.R. § 200.405). This standard is met if the cost:

- a. Is incurred specifically for the Federal award [i.e. cost objective];
- b. Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
- c. Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.

How Costs are Charged to Each Partner

What are Proportionate Use and Relative Benefit?

- Proportionate Use in one-stop allocation means the fair share of the costs proportionate to one of three types of cost **allocation bases**:
 - The **use** of the one-stop center **by customers** that may include reportable individuals and participants in its program at that one-stop center;
 - The amount of **square footage** occupied by the partner program in the one-stop center; or
 - **Another allocation base** consistent with the Uniform Guidance. (RSA-TAC-17-03)
- Relative Benefit measures a partner's benefit using reasonable methods agreed to by all partners or determined in accordance with the SFM. Contributions initially based on budgeted amounts must be reviewed and reconciled periodically during the program year against actual costs incurred. Adjustments must be made to ensure that partner contributions are proportionate to their use. (20 C.F.R. § 678.715(a)(4), 34 C.F.R. § 361.715(a)(4), and 34 C.F.R. § 463.715(a)(4)).

Cost Pools and Allocation Bases

What is an Allocation Base?

An allocation base is the method of documentation used to measure the extent of benefits received when allocating joint costs among multiple cost objectives.

- When costs cannot be directly assigned to a final cost objective, the costs are placed in a **cost pool** that will be allocated at a later time to the benefiting partner programs.
- A cost pool contains a group of common costs to be allocated by using an indirect or approximate measure of benefit.
- The approximate measure of benefit is the allocation base.

Cost Pools and Allocation Bases

What is an Allocation Base? (cont.)

- Many different types of bases can be used in allocating costs. The most appropriate base will vary depending on the circumstances.
- One-stop partner programs may agree to use several different bases for allocating different types of costs in the one-stop center.
- A local area may allocate costs differently among one-stop centers in that local area.
- Acceptable methods for distributing pooled costs may vary by type of organization, units or levels within an organization, types of cost to be allocated, and cost category.
- The basis used to allocate a particular type of cost must be used consistently over time (2 C.F.R. § 200.403(d)).

Cost Pools and Allocation Bases

What is Input-Based Allocation?

Inputs – the most commonly used allocation bases – are the resources used in a process, activity, or service. Using inputs, the cost is allocated at the same time it is incurred and the usage must be documented. Examples of input bases include—

1. Staff time allocated on the basis of time sheets and time distribution records;
2. Facilities allocated on the basis of square footage;
3. Accounting services allocated on the basis of transactions; and
4. Equipment or supplies allocated based on usage.

(See 2 C.F.R App. III to § 200)

Cost Pools and Allocation Bases

What is Output-Based Allocation?

Outputs are the results of an activity or service. Examples of output allocation bases include —

1. Participants and reportable individuals under a specific program;
2. Number of customers who are obtaining employment after self-directed job search; and
3. Number of customers receiving a specific career service.

An issue with using output-based allocations is that they will vary over time, usually based on client flow. For this reason, output-based allocations may result in large changes in the resources needed to fund pooled costs when budgets are adjusted to reflect actual costs and, therefore, should be used with caution.

Cost Pools and Allocation Bases

What are the Allocation Base Acceptability Standards?

An allocation base is acceptable if it:

- Represents a fair measure of cost benefit; and
- Results in an equitable and reasonable distribution of the costs of services or goods.

Each base should be considered on its own merits as to the purpose for using it and the degree of equity and reasonableness it will achieve in allocating infrastructure or additional costs. The following are standards for acceptable bases:

- Minimal Distortion
- General Acceptability
- Represents Actual Cost or Effort Expended
- Practicality and Cost of Using the Base
- Timely Management Control
- Consistency with Variations in Funding
- Materiality of Costs Involved

Cost Pools and Allocation Bases

Allocation Base Standards: Minimal Distortion & General Acceptability

- Minimal Distortion: The base should allocate costs in a fair and equitable manner without distorting the results. This requires that the base be as causally related as possible to the types of costs being allocated, so that benefit can be measured as accurately as possible. For example, building costs may be allocated based on square footage used by a partner program.
- General Acceptability: Consistent with 2 C.F.R. § 200.403(e), the base should be generally accepted and in conformance with Generally Accepted Accounting Principles (GAAP). For example, the base should be consistently applied over time. The base should also be drawn from the same period during which the costs have been incurred and allocated.

Cost Pools and Allocation Bases

Allocation Base Standards: Effort Expended & Timely Mgmt. Control

- Represents Actual Cost or Effort Expended: The base should be a measure of actual cost or actual effort expended. It should be based on historical data and not solely on a plan, projection, budget, job description, or other estimates of planned activity. This means that partner contributions determined from allocation methodologies based originally on a budget must be reconciled periodically to actual costs to ensure the contribution is reflective of relative benefits received by the partner over time.
- Timely Management Control: The base should be within management's ability to control on a timely basis. The base should produce reliable and fairly predictable results. If the base is erratic and unpredictable, beyond management's ability to control, or not timely, then it is likely to produce unacceptable results. For example, if time studies are used, but do not accurately reflect seasonal or workload fluctuations, such a base may not be suitable in allocating costs.

Cost Pools and Allocation Bases

Allocation Base Standards: Consistency w/Funding Variations & Materiality of Costs

- Consistency with Variations in Funding: The base must be able to accommodate and withstand changes in funding during the year and from year to year. If the base includes factors that are affected by variations in funding, it could produce distorted results.
- Materiality of Costs Involved: The time and expense spent in developing and implementing the base should not be greater than justified by the materiality of the costs to be allocated. In other words, the grantee should not spend more on obtaining the information needed to allocate pooled costs than the dollars in the pool warrant. The base should be sufficiently detailed to provide the most equitable and accurate allocation possible. At the same time, the base should be simple enough to be efficient while still attaining a fair distribution of costs.

Cost Pools and Allocation Bases

Allocation Base Standards: Practicality and Cost of Using the Base

- Practicality and Cost of Using the Base: The base should be as efficient as possible in terms of the cost or effort in developing it. Thus, wherever possible, a database that already exists in the financial or participant record keeping and reporting systems should be used

Cost Pools and Allocation Bases

What is a Cost Pool?

A cost pool contains a group of common costs, to be allocated at a later time to the benefiting partner programs, by using an indirect or approximate measure of benefit.

Examples of Cost Pools and Applicable Allocation Bases

Cost Pool	Possible Allocation Bases
<p>Facilities: Building rent, maintenance costs, utilities, tenant improvements, or any other similar costs related to the physical structure housing the one-stop center.</p>	<p>Square footage occupied by each partner agency as compared to the total space, workstation usage by partners as compared to total workstations.</p>
<p>Telecommunications: Monthly telephone costs, telephone system equipment, data lines, T-1 lines, and other similar costs.</p>	<p>Dedicated telephone units as compared to all units.</p>
<p>Information Technology: Shared equipment, software, IT maintenance costs, Internet access, and other similar costs.</p>	<p>Number of dedicated computers (including all necessary equipment) as compared to total.</p>
<p>Resource Center: Costs of shared equipment, displays, computer learning, specialized software for computer learning, furniture, copier, fax machine; may also include related staff costs.</p>	<p>Number of program participants or reportable individuals utilizing the resource center.</p>

Examples of Cost Pools and Applicable Allocation Bases (cont.)

Cost Pool	Possible Allocation Bases
Common Intake System: Costs of developing common intake data formats, preparation and interview of customers, and similar costs.	Use of common data formats and data elements required for each program. Use of number of customer or participant records maintained by each partner program.
One-Stop Center Management Staff: Costs of the center director.	Number of partner program staff FTEs. Square footage of partner program benefit or number of program participants and reportable individuals served.
One-Stop Center General Operations Staff: Costs of the receptionist, staff of the resource center.	Number of partner program participants.
Shared Equipment and Supplies: Staff copier, fax, associated supplies, and furniture.	Usage by staff of each partner program. Occupancy (square footage) basis; numbers of staff workstations.
Career Services: Staff and benefit costs, development of common forms for case management, and similar costs.	Time distribution system (time sheets, work sampling, time and motion studies); numbers of clients eligible for specific program; weighted participation numbers.

Cost Allocation Methodology

- Awarding agencies do not prescribe specific methodologies to allocate costs among one-stop partners.
- Each one-stop delivery system is unique and presents a different set of circumstances. Any number of methods may be used, provided they are consistent with WIOA, its implementing regulations, and the Uniform Guidance, including the Federal Cost Principles.
- It may be necessary to allocate costs by each one-stop center separately. For instance, the budget for operating an affiliate one-stop center may be less than the operating budget for a comprehensive one-stop center because the affiliate one-stop center includes one or more, but not all, one-stop partner programs.

Cost Allocation Methodology (cont.)

In the preliminary stage of developing cost allocation methodologies for one-stop centers, the partners—

1. Determine the infrastructure costs budget and the budget(s) for additional costs, which must include career services and may include shared services and shared operating costs for a particular comprehensive one-stop center;
2. Determine which methodologies are reasonable and acceptable; and
3. From the acceptable methodologies, select the methodology (or methodologies) that will be applied to the different cost categories. In other words, the partners are selecting the appropriate distribution base(s) under which they allocate infrastructure and additional costs.

Partner programs may agree to select different cost allocation methodologies and allocation or distribution bases for cost objectives within infrastructure costs and additional costs, such as applicable career services, shared operating costs, and shared services categories.

Cost Allocation Methodology (cont.)

- Partners should focus on identifying methodologies that most effectively allocate costs based upon proportionate use and relative benefits received by the partners.

The negotiations of cost sharing and allocation among partners must be conducted in good faith and in an open and transparent environment, where full disclosure of costs and funding is essential to this process. Because of the need to provide maximum flexibility to accommodate various organization structures, costs, and budgets in local areas, there is no single method prescribed for allocating costs.

Cost Allocation Methodology

Steps in the Allocation of Infrastructure Costs Process:

1. Identify one-stop operating costs, including infrastructure costs and additional costs.
2. Develop the one-stop operating budget that includes an infrastructure costs budget and additional costs budget.
3. **Develop the cost allocation methodology, including the identification of cost pools and allocation bases.**
4. Determine estimated partner contributions.
5. Prepare and agree to the IFA(s).
6. Allocate actual costs by each partner's proportionate use and relative benefit received.
7. **Conduct a periodic reconciliation (i.e., monthly or quarterly).**
8. Modify infrastructure costs budget and/or cost allocation methodology, as appropriate.
9. Evaluate the existing process and prepare for the following program year.

In Summary: Cost Allocation

Cost allocation is the process of assigning certain costs to certain cost objectives based on the proportional benefit received by those cost objectives. To assign costs, define the:

- a. Costs to be assigned to a particular cost objective,
- b. Objectives to which those costs will be assigned, and
- c. Process, or method, through which costs will be assigned to cost objectives.

The allocation *process* is also known as the cost allocation *methodology*, and there are different ways to choose the methodology, all of which are based on the specific circumstances of the situation and the limitations set by the applicable requirements, but must focus on proportionate use and relative benefits received.

In Summary: One-Stop Center Proportionate Share of Funding

A one-stop partner program's proportionate share of funding must be (2 C.F.R. § 200.403)—

- a. Based upon a reasonable cost allocation methodology, whereby infrastructure costs are charged to each partner based on the partner's proportionate use of the one-stop center and the relative benefits received;
- b. Allowable, reasonable, necessary, and allocable; and
- c. Periodically reviewed (i.e., monthly or quarterly) and reconciled against actual costs incurred, and adjusted to ensure that actual costs charged to any one-stop partner are based on proportionate use and relative benefit received by the one-stop partner and its respective program or activities.

Walkthrough of Sample MOU and Infrastructure Costs Toolkit

From <http://rsa.ed.gov>, click “Workforce Innovation and Opportunity Act” and then “Sample Memorandum of Understanding (MOU) and Infrastructure Costs Toolkit”.

Or go directly here:

https://ion.workforcegps.org/resources/2017/03/23/13/30/Sample_MOU_Infrastructure_Costs_Toolkit

- Sample MOU 2017
- Cost Allocations and Partner Contributions- County A
- Cost Allocations and Partner Contributions- County B
- Cost Allocations and Partner Contributions- County C
- Cost Allocations and Partner Contributions- Total

(Toolkit resources will be downloaded before presentation.)

Questions



If you have additional questions, please email them to RSAfiscal@ed.gov.