



Cost Allocation 101



Uniform Guidance vs. OMB Circulars



- Prior to the Uniform Guidance, requirements governing cost principles, administrative requirements and single audit requirements were found in eight separate OMB Circulars.

- In addition to the Uniform Guidance, recipients and subrecipients of a DOL award must adhere to 2 CFR 2900 found at www.ecfr.gov.

- Adopted on December 19, 2014, includes a limited number of exceptions approved by OMB to ensure consistency with existing policy and procedures.
- Expanded at 2 CFR 2900.2, the exceptions definition of non-Federal entity includes for-profit or commercial and foreign entities.

- Grant recipients and subrecipients of DOL funds that are commercial or for-profit entities or foreign entities must adhere to 2 CFR 200 and 2 CFR 2900.

UNIFORM GUIDANCE

US DEPARTMENT OF LABOR - ETA GRANT RECIPIENTS

IMPLEMENTATION

AFTER December 26, 2014

	Administrative Requirements	Audit Requirements	Cost Principles
Governmental Organizations			
Indian Tribes			
Nonprofit Organizations	2 CFR Part 200 and 2 CFR Part 2900*		
Institutions of Higher Educations			
Commercial For-Profit Organizations **			
Foreign Public Entities and Foreign Organizations **			

* Technical corrections contained in the Federal Register dated September 10, 2015 allows a grace period of two fiscal years from the effective date of the Uniform Guidance to implement the procurement standards at 2 CFR.200.317 to 200.326.

** 2 CFR.2900.2 expands the applicability of the Uniform Guidance to commercial for-profit and foreign entities.

BEFORE December 26, 2014

	Administrative Requirements	Audit Requirements	Cost Principles
Governmental Organizations	29 CFR Part 97	29 CFR Part 96	2 CFR 225
Nonprofit Organizations	29 CFR Part 95	29 CFR Part 96	2 CFR 230
Institutions of Higher Educations	29 CFR Part 95	29 CFR Part 96	2 CFR 220
Commercial For-Profit Organizations **	29 CFR Part 95	29 CFR Part 96	48 CFR 31.2

The Uniform Guidance can be found at <http://www.doleta.gov/grants/resources.cfm>

Purpose and Introduction



This course introduces information and the pitfalls in cost allocation if not **handled** properly:

Key provisions in the Uniform Guidance on cost allocation

Difference between direct and indirect costs and the appropriate bases for allocating them

New de minimis rate for recovering indirect costs

New requirement for identifying components of indirect cost pools

Cost allocation process

Avoid frequent mistakes that might result in improper allocation of costs

Course Topics



SECTION 1: Terms and Definitions



SECTION 2: Cost Allocation Principles



SECTION 3: Cost Allocation Requirements



SECTION 4: Payroll Distribution Documentation Standards



Course Objectives



At the end of this course, you should be able to:

- Define cost allocation terms, including the 10% de minimis rate.
- Identify cost allocation requirements, including what the difference is between direct cost and indirect costs.
- Understand cost allocation principles found in the Uniform Guidance.
- Identify appropriate bases for allocating costs.
- Identify changes to the documentation standard for distributing personnel expenses.





SECTION 1: Terms and Definitions





2 CFR 200.4

Allocation

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.

May entail assigning a cost(s) directly to a final cost objective or through one or more intermediate cost objectives.

Allocable Costs



2 CFR 200.405

Allowability = Allocability

A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with **relative benefits** received.



Allocable Costs

Criteria for Meeting Allocable Costs



2 CFR 200.405

Are incurred specifically for the Federal award.

Benefit both the Federal award and other work of the non-Federal entity.

Can be distributed in proportions that may be approximated using reasonable methods.

Are necessary to the overall operation of non-Federal entity.

Cost Objectives



200.28 Cost Objective

- A program, function, activity, award, organizational subdivision, contract, or work unit for which cost data are desired.

200.60 Intermediate Cost Objective

- Used to accumulate indirect or service-center costs that are subsequently allocated to one or more indirect cost pools or final cost objectives
- Example: WIOA One-stop's facilities costs (rent, utilities, repairs and maintenance costs, etc.)

200.44 Final Cost Objective

- Both direct and indirect costs are allocated to it.
- One of the final accumulation points: an award, internal project, other direct activity.
- Example: WIOA Adult program award.

Cost Pooling



Direct charge costs to a final cost objective when possible.

When that is not possible or practical, use an intermediate cost objective (cost pool)

For any type of cost or grouping of similar costs not readily identified with a single final cost objective

Ultimately allocated to final cost objectives in proportion to the relative benefits received (Example: WIOA Adult, Dislocated Workers, Youth programs)

Limited to shared direct and indirect costs

Only actual, not budgeted, costs may be pooled when being charged to awards

All costs in the pool must be allowable costs for all the cost objectives to which the pooled costs will subsequently be allocated

Cost Allocation Methods



Cost Allocation Plan (CAP)

Indirect and Direct Costs

Indirect Costs must be approved by a Federal cognizant agency

Approval to allocate and charge Indirect Costs using a CAP

Direct Shared Costs must be reviewed by One-Stop partners

Indirect Cost Rate (ICR)

Negotiated Rate

De minimis Rate

Frequently referred to as overhead costs

ICR or de minimis rate is needed to recover indirect costs

Infrastructure Funding Agreement



WIOA

Infrastructure
Costs

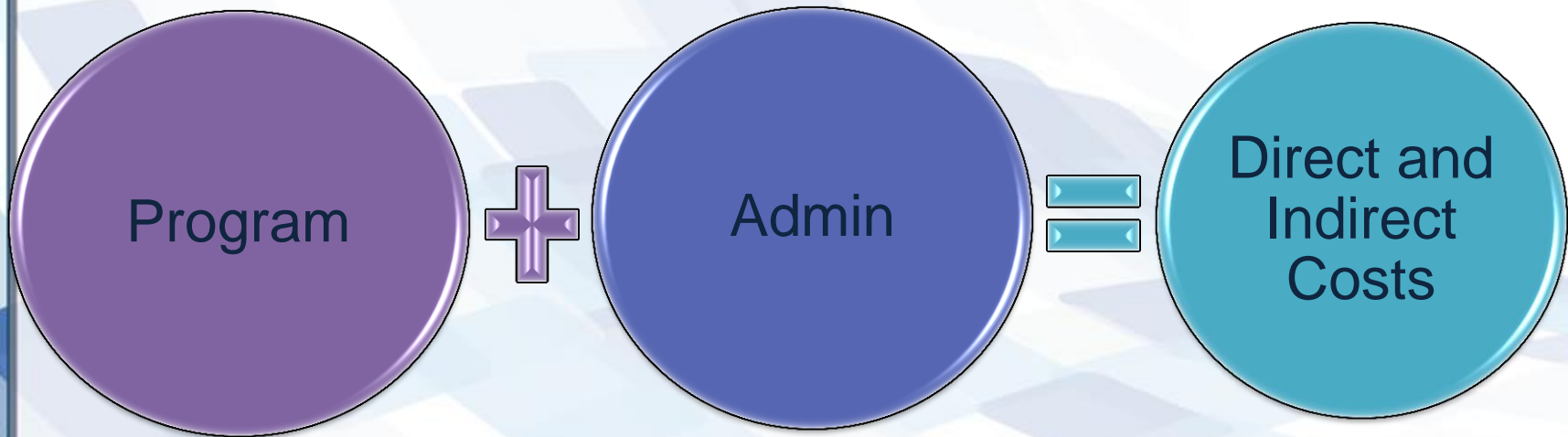
Shared Costs
and Services



Types of Costs in WIOA



Both direct and indirect costs may include both **program and administrative costs**, which are defined in WIOA.





2 CFR 200.413

- ✓ Can be identified with a particular final cost objective, such as a Federal award, or other internally or externally funded activity.
- ✓ Can be directly assigned to such activities relatively easily and with a high degree of accuracy.

Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs.

Examples of Direct Costs



Costs that are directly charged to a single program:

Salary for a case manager working on a single program...

Square footage of space occupied by the case manager

Communications devices, such as a cell phone used by the case manager

Supplies used by the case manager

Examples of Direct Shared Costs



Costs that benefit more than one program are shared costs across all the programs:

The salary for a case manager who works with adult, dislocated workers, and youth participants would have his/her costs directly charged to a case management cost pool and later allocated across the programs.

Other
Shared Cost
Examples:

Square footage of space
occupied by the case manager

Communications devices,
such as a cell phone

Supplies used by the case
manager



Modified Total Direct Costs



MTDCs are:

- The base used for a de minimis ICR.
- May be used as a base in an approved ICR.
- Actual salaries, wages, fringe benefits, materials and supplies, services, or travel.
- Subawards up to the first \$25,000 of each subaward.



Modified Total Direct Costs



MTDC Exclusions:

- Equipment, capital expenditures, patient care.
 - Rental costs, tuition, and participant support costs.
 - Portion of each subaward in excess of \$25,000.
 - Other items may be excluded by the Federal cost cognizant agency.
- NOTE: Voucher payments or other forms of payment that are not governed by a grant or

An organization does not need Federal approval or the approval of the pass-through entity in order to use a de minimis rate to charge indirect costs to Federally funded grants...however, both the pass-through entity or DOL will have to be notified of the non-Federal entity's intent to do so.

Indirect (F&A) Costs Defined



2 CFR 200.56

Indirect (Facilities & Administrative) costs

- Incurred for a common or joint purpose benefitting more than one cost objective, and are not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.
- To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs.
- Indirect (F&A) cost pools must be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

Indirect (F&A) Costs



200.414 Indirect (F&A) Costs

Facilities

- Depreciation on buildings, equipment and capital improvements
- Interest on debt associated with certain buildings, equipment and capital improvements
- Operations and maintenance expenses.

Administration

- General administration and general expenses such as the director's office, accounting, personnel and all other types of expenditures not listed specifically under one of the subcategories of Facilities.

Indirect Costs



2 CFR 414

- Administration and facilities costs incurred in support of multiple programs, but not a specific program cost.
- Originate either within the recipient organization or department or another department that supports the overall organizational operations.
- Are charged back to the program through an approved indirect cost rate.



Indirect Costs Examples



Salaries for executive director, accountants, personnel staff, etc.



Square footage of space occupied by indirect staff



Supplies used by indirect staff



Communications devices used by indirect staff

Direct vs. Indirect Cost Comparison



Direct Cost

- Case Manager Example
- Direct Staff (all time is spent on this grant)
- Costs are direct since all time is attributed to the grant
- Items that are direct costs:
 - Salary
 - Space
 - Supply
 - Communications

Indirect Cost

- Executive Director Example
- Indirect Staff (works in support of multiple projects including the one in support of the grant)
- Costs are indirect since only some of the time is spent on this grant
- Items that are indirect costs:
 - Salary
 - Space
 - Supply
 - Communications

De Minimis Rate



2 CFR 200.414(f)

De minimis – at a minimal rate: a method of charging micosts to grants without having to obtain an approved indirect cost nimal amounts of indirect rate agreement

Eligible Entity

- Has indirect costs; never received a negotiated indirect cost rate
- May charge 10% of modified total direct costs (MTDC) for an indefinite period or until grantee receives a negotiated indirect cost rate

Non-eligible entity

- Governmental units with more than \$35 million in direct Federal funding

Reasonable and Total Costs



2 CFR 200.402 & 200.404

Reasonable Cost

- Does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.
- Is a primary cost principle in determining allowability of all types of costs.

Total Costs

- Sum of the allowable direct and allocable indirect costs less any applicable credits.





Knowledge Check



Question 1



If a case manager serves only WIOA youth program clients, their time would be considered an indirect cost.

- A) True
- B) False

Submit

Clear

Question 1 - Feedback



The answer is False.

This is a direct cost because it directly benefits one cost objective (the WIOA youth program).



Question 2



In the example of a case manager serving only WIOA youth program clients, their time would be directly charged to the grant.

- A) True
- B) False

You answered this correctly!

Submit

Clear

Question 2 - Feedback



The answer is True.

The cost is directly assignable to a program, because the case manager works only on the WIOA youth program. There is no need to allocate the cost, instead it can be directly charged. Additionally, the cost does not need to be allocated further because it is not shared among more than one cost objective.



Question 3



A case manager serves clients enrolled in the WIOA, Dislocated Worker, and Trade programs. This is an example of a shared direct cost.

- A) True
- B) False

Submit

Clear

Question 3 - Feedback



The answer is True.

This is a shared direct cost because the case manager's time is directly spread across all the programs.



Question 4



A copy machine is used to make copies for everything including items for the grant. This is an example of a direct cost.

- A) True
- B) False

Submit

Clear

Question 4 - Feedback



The answer is False.

This is an indirect cost because the copy machine's use can be spread across several programs as well as internal uses. The portion of the copy would be allocated to the final cost objective.





SECTION 2:

Cost Allocation Principles



Consistency with Cost Principles



Reasonable

Allowable

Allocable

ALLOWABLE COSTS

- Allocate costs to cost objectives in reasonable proportion to benefits received.
- Use the reasonableness standard.
- Allocability is a measure of how much a cost benefits the grant. If a cost does not provide a benefit to a cost objective, it is not allocable. If not allocable, it is not an allowable cost.
- To be a necessary cost, a cost must benefit the cost objective as required by the cost principles.

Consistency with Cost Principles



Consistent Treatment

Costs must receive consistent treatment compared with other costs incurred for the same purposes in like circumstances

Costs cannot be charged as an indirect cost to one Federal grant and a direct in another grant

Costs cannot shift costs from one cost objective to another to overcome funding deficiencies, avoid restrictions imposed by law or grant agreement, or other reasons

Examples of Cost Shifting



Examples of cost shifting include:

- From one grant to another grant (exception on next slide)
- From administrative to program cost category
- From direct to indirect cost or vice versa



Grant-to-Grant Cost Shifting Exception



2 CFR 200.405(c)

[The prohibition against shifting costs between/among Federal awards] would not preclude the non-Federal entity from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.



Allocation Principle



2 CFR 200.405(d)

Proportional Benefit

- If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost **must** be allocated to the projects based on the proportional benefit.



Measuring Benefit



Costs are allocable to a particular cost objective to the extent of relative benefits provided to that cost objective.

- If no benefit received, then it is not allocable to that objective.

Method used for measuring benefit is an integral part of the process for allocating costs.

- For a direct cost to be assigned, the cost objective must meet the full benefit of the item that makes up that cost.

Measuring Benefit



A cost may benefit more than one cost objective, so that any single cost objective receives only partial benefit from the cost incurred.

Costs pooled or assigned to intermediate cost objectives must be allocated to final cost objectives using an acceptable allocation base.

An allocation base is the measure of benefit and the means by which the pooled costs are allocated to the final cost objectives.

Administrative Costs vs. Program Costs



Costs can be classified as program or administrative costs or split between the categories.

Program Costs

- Costs related to the program
- Monitoring programmatic functions
- Classroom space for training
- Travel to job sites
- Some indirect costs

Administrative Costs

- Goods and services required for admin functions
- Equipment rental or purchase
- Maintaining office space
- Travel to conferences
- Most indirect costs

Administrative vs. Program: Administrative Costs



Per WIOA: Costs associated with carrying out administrative and general management functions:



- Accounting, Budgeting, Payroll, Procurement, Cash Management.
- Facilities, Property Management, Insurance, Personnel.
- Monitoring, Audit, Investigations, Incident Reports, Resolution activities.
- Automated systems, maintenance, equipment.
- Any contract or sub-award that is an “administrative” function.
- General legal, Human Resources.



Administrative vs. Program: Program Costs



Costs directly associated with the functions dealing with participants and training are program costs:



Costs not considered administrative in definition or nature.



Costs related to participants such as direction, supervision, management, tracking.



Costs related to training, providers, LMI, performance.



Costs directly associated with a program activity or participant.

Indirect vs. Administrative Costs



Not all indirect costs are necessarily classified as administrative costs.

Follow these steps to determine the classification:

1. Indirect cost proposal can distinguish which indirect costs in the pool are program or administrative to establish proportional % each represents in the pool.
2. Apply approved indirect cost rate against the correct base to determine amount of recovered indirect costs.
3. Apply the administrative and program proportional % of the pool (Step 1) to the recovered indirect costs (Step 2).
4. Indirect administrative costs charged as administrative costs.



SECTION 3: Cost Allocation Requirements



Standards for Acceptable Bases



The approximate measure of benefit is the allocation base. The criteria used to develop the allocation base should contain the following standards:



Related to the types of costs being allocated



Fair measure of cost generation or benefit



Results in equitable allocation of costs



Minimal distortion

Standards for Acceptable Bases



Actual effort or cost



General acceptability



Cost-effective use of available and representative data



Timely management control



Adjusted for variations in funding and services provided

Unacceptable Allocation Bases



**Fails to meet the standards for allocability...
distorted final results...no direct or causal link
between costs allocated and the allocation base.**



May not be solely based on plans, estimates, budgets, or future effort.

Plans, budgets or estimates not adjusted for actual costs.



Number of staff hours budgeted to an activity not adjusted to actual hours.

Non-contemporaneous data such as results from prior periods.



Planned expenditure levels.

Planned participant levels.





Inputs = Resources Used in Service, Activity, Process

Examples of common input bases used to allocate costs:

- Number of employees; staffing plan
- Resources used; examples and documentation
- Facility costs; space usage by staff
- Telephone expenses; number of employees
- Accounting services; number of transactions

The manner in which the input or resources are used must be documented.



Using Outputs as the Base



Outputs = Process of distributing pooled costs back to the final cost objective.

Examples of commonly used output measures:

- Work units or products completed
- Numbers served
- Results obtained
- Percent share of expenditures
- Allocated at the end of the process or period of time

Documentation examples of output measures include numerical counts and expenditure reports.

Examples of Output Bases



Centralized Intake

- Number of participants

Job Placement

- Number of placements made

Administration (no outputs)

- % of direct expenditures or other bases for indirect costs per an approved CAP or ICR

Case Management

- Number of participants currently enrolled by program

Services Prior to Enrollment

- Number of customers eligible by program

Indirect Costs Allocation Bases



Direct salaries

**FRINGE
BENEFITS**

Direct salaries and
fringe benefits



Total direct costs

MODIFIED

Modified Total Direct
Costs (MTDC)



SECTION 4:

Payroll Distribution

Documentation Standards



Payroll Distribution: Uniform Guidance



2 CFR 200.420
General Provisions for Selected Items of Cost

2 CFR 200.430
Compensation – Personal Services

2 CFR 200.430(i)
Standards for Documentation of Personnel Services



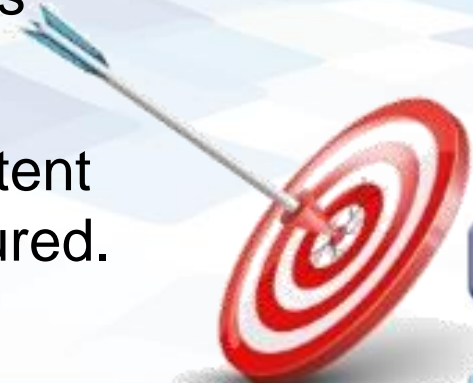
Payroll Distribution: Basic Standards for Documentation



Payroll records must be supported by a system of internal control that the charges are accurate, allowable and allocated.

What has changed is how you must support the methods you use for payroll distribution.

- Activity reports such as time and attendance records are no longer a required method.
- Your internal control system provides the support system.
- Design your internal controls consistent with how your organization is structured.



Payroll Distribution: Records



Must...

- Be incorporated into the official records.
- Reasonably reflect the employee's total activity
 - *Not to exceed 100% of compensated activities.*
- Encompass both Federally assisted and all other activities compensated on an integrated basis.
- Comply with accounting policies and practices.
- Support the distribution of salary or wages among specific activities or cost objectives if employee works on more than one award or activity.



Payroll Distribution: Documentation Standards



- Payroll records meeting these standards are not required to provide additional documentation of work performed.
- Non-exempt employees: must record total number of hours worked each day to comply with FLSA.
- Same standards apply to documenting salaries and wages for cost sharing and match requirements.
- Federal government may require personal activity reports or equivalent if records do not meet these standards.
- Institutions of Higher Education:
 - Categories of activities may be expressed as a %.
 - Intermingled duties: precision not always feasible.





Knowledge Check



Question 1



For a Case Manager's salary, acceptable base(s) that may be used to allocate costs would be:

- A) Direct labor hours
- B) Direct expenditures
- C) Number of participants currently enrolled
- D) Square footage

Submit

Clear

Question 1 - Feedback



For a Case Manager's salary, appropriate bases include:

Direct labor hours

Number of participants currently enrolled

You might be able to justify Direct expenditures under certain circumstances.



Question 2



For a Job Developer's travel, acceptable base(s) that may be used to allocate costs would be:

- A) Direct labor hours
- B) Direct expenditures
- C) Number of participants currently enrolled
- D) Square footage
- E) Number of units (job placements)

Submit

Clear

Question 2 - Feedback



For a Job Developer's travel, appropriate bases include:

Direct labor hours

Number of participants currently enrolled

Number of units (the unit being job placements)

You might also be able to justify Direct expenditures, under certain circumstances.



Question 3



For Employers Services, acceptable base(s) that may be used to allocate costs would be:

- A) Direct labor hours
- B) Direct expenditures
- C) Number of participants currently enrolled
- D) Square footage
- E) Number of units (offices used)

Submit

Clear

Question 3 - Feedback



For an Employer Services cost, appropriate bases include:

Direct expenditures



Question 4



For a joint copy machine, acceptable base(s) that may be used to allocate costs would be:

- A) Direct labor hours
- B) Direct expenditures
- C) Number of participants currently enrolled
- D) Square footage
- E) Number of units (number of copies)

Submit

Clear

Question 4 - Feedback



For a joint copy machine, appropriate bases include:

Direct labor hours

Direct expenditures

Number of units (the unit being number of copies)



Question 5



For a joint conference room, acceptable base(s) that maybe used to allocate costs would be:

- A) Direct labor hours
- B) Direct expenditures
- C) Number of participants currently enrolled
- D) Square footage
- E) Number of units (number of doors to access the room)

Submit

Clear

Question 5 - Feedback



For a joint conference room, appropriate bases include:

Direct labor hours

Number of participants currently enrolled

Square footage

You might also be able to justify Direct expenditures under certain circumstances.





SUMMARY





Section 1: Terms and Definitions

- ✓ Cost Pooling
- ✓ Cost Allocation
- ✓ Direct Costs
- ✓ Indirect Costs
- ✓ De Minimis Rate

Section 2: Cost Allocation Principles

- ✓ Allocation Principle
- ✓ Measuring Benefit
- ✓ Administrative Costs vs. Program Costs





Section 3: Cost Allocation Requirements

- ✓ Standards for Acceptable Bases
- ✓ Unacceptable Allocation Bases
- ✓ Using Inputs and Outputs as the Base
- ✓ Indirect Costs Allocation Bases

Section 4: Payroll Distribution Documentation Standards

- ✓ Uniform Guidance
- ✓ Basic Standards for Documentation
- ✓ Records



Conclusion



This presentation is complete.