

Cost Allocation 101

Why This Session Is Needed

<p>Understand the difference between direct and indirect costs along with:</p> <ul style="list-style-type: none">• Key terms• Concepts• Process for allocating direct and indirect costs	<p>Identify appropriate bases for allocating direct and indirect costs</p>	<p>New...</p> <ul style="list-style-type: none">• de minimis rate available, if qualified, for recovering indirect costs• requirement for identifying components of indirect cost pools for certain organizations
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Cost Allocation 101 2

Lesson Overview & Module Objectives

Uniform Guidance	<ul style="list-style-type: none">• Define cost allocation terms• Identify cost allocation requirements
Criteria	<ul style="list-style-type: none">• Understand cost allocation principles
Measuring Benefit	<ul style="list-style-type: none">• Identify appropriate bases for allocating costs
Key Change	<ul style="list-style-type: none">• Learn change to the documentation standard for distributing personnel expenses

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Knowledge Check

On a scale of 1 (lowest) to 5 (highest), rate your knowledge and understanding of the following by **circling** the appropriate number in the middle column of the sheet, labeled Pre-Training, for each of the statements.

- The difference between direct and indirect costs
- The difference between intermediate and final cost objectives
- Appropriate bases for allocating different types of pooled costs
- I understand the facilities and administration components of an indirect cost rate proposal
- I understand what proportional benefit means

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Uniform Guidance

Learning objectives for this section

- Define cost allocation terms
- Identify cost allocation requirements

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Cost Allocation

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.
- The process may entail assigning a cost(s) directly to a final cost objective or through one or more intermediate cost objectives.

objective

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Allocable Costs

2 CFR 200.405

Allocable Costs → 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.

- Criteria for meeting this standard**
- Is incurred specifically for the Federal award**
- 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**
- NECESSARY**
Necessary to the overall operation of non-Federal entity, and assignable, in part, to the Federal award in accordance with UG cost principles

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Cost Objectives

200.28 Cost Objective	200.60 Intermediate Cost Objective	200.44 Final Cost Objective
<ul style="list-style-type: none">• A program, function, activity, award, organizational subdivision, contract, or work unit for which cost data are desired	<ul style="list-style-type: none">• A 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.)	<ul style="list-style-type: none">• 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

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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 (Example: case management function; salaries, space cost, supplies, etc.)
- Ultimately allocated to final cost objectives in proportion to the relative benefits received (Example: WIOA Adult, DW, 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


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Cost Allocation Methods

- Cost Allocation Plan**
 - Direct Costs
 - Indirect Costs
- Indirect Cost Rate**
 - Negotiated rate
 - De minimis rate

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Infrastructure Funding Agreement

Provides agreement among partners for infrastructure funding


Similar to that required under WIA, but with additional terms and conditions

IFA

Regulation to come

Additional guidance to come

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Types of Costs

- Direct Costs**
 - Program
 - Administrative
- Indirect Costs**
 - Program
 - Administrative

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Direct Costs

Definition 2 CFR 200.413





- Direct costs are those costs that can be identified 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 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.

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Examples of Direct Costs

Costs that are directly charged to a **single** program:





-  Salaries for a case manager who only works with dislocated workers
-  Square footage of space occupied by the case manager above
-  Communications devices, such as a cellphone used by the case manager
-  Supplies used by the case manager

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Examples of Direct Shared Costs

Costs that benefit **more than one** program:

-  Salaries for a case manager who only works with adult, dislocated workers, and youth participants
-  Square footage of space occupied by the case manager
-  Communications devices, such as a cellphone used by the case manager
-  Supplies used by the case manager

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Modified Total Direct Costs

Modified Total Direct Costs (MTDC)

MTDCs are:

- Actual salaries, wages, fringe benefits, materials and supplies, services, travel; subawards up to the first \$25,000 of each subaward

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 Federal cognizant agency

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Indirect (F&A) Costs Defined

2 CFR 200.56

Indirect (Facilities & Administrative) costs

- 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.
- 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.



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Indirect F&A Costs

200.414 Indirect (F&A) Costs

Facilities

- Defined as depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses.





Administration

- Defined as 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.

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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

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De Minimis Rate

2 CFR 200.414(f)

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

Non-eligible entity

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


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Other Definitions

2 CFR 200.402 & 200.404

- Reasonable Costs
 - A cost is reasonable if, in its nature and amount, it 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.
- Total Costs
 - Sum of the allowable direct and allocable indirect costs less any applicable credits.



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Status Check

In the following examples, identify whether the costs are

- Direct or indirect, and
- Assigned to intermediate or final cost objective.

? The case manager serves WIOA youth program clients only

? The case manager serves clients enrolled in the WIOA Adult, Dislocated Worker, and Youth programs

? The organization's Human Resources (HR) Department purchases a copier machine and charges its offices and programs for the HR services it provides

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Cost Allocation Principles

Learning objectives for this section

- Understand cost allocation principles

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Consistent With Cost Principles (1 of 2)

- Allocate costs to cost objectives in reasonable proportion to benefits received
- If no benefit, not a necessary cost

Reasonable Allocable Necessary

ALLOWABLE COSTS

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Consistent with Cost Principles (2 of 2)

Consistent Treatment

- Costs incurred for the same purposes in like circumstances
- Cannot charge as direct cost to one grant and as indirect to another
- Cannot shift costs from one cost objective to another to overcome funding deficiencies, avoid restrictions imposed by law or grant agreement, or other reasons
 - From one grant to another grant (exception on next slide)
 - From administrative to program cost category
 - From direct to indirect cost or vice versa



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Grant-to-Grant Cost Shifting Exception

2CFR 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.

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Allocation Principle

2CFR 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.



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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

- The method used is the allocation base

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

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Administrative v. Program: Administrative Costs

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

 <p>Accounting, Budgeting, Payroll, Procurement, Cash Management</p>	 <p>Automated systems, maintenance, equipment</p>
 <p>Facilities, Property Management, Insurance, Personnel</p>	 <p>Any contract or sub-award that is "administrative" in function</p>
 <p>Monitoring, Audit, Investigations, Incident Reports, Resolution activities</p>	 <p>General legal, Human Resources</p>

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Administrative v. Program: Administrative Costs

Costs associated with carrying out administrative and general management functions:

- Accounting, Budgeting, Payroll, Procurement, Cash Management
- Automated systems, maintenance, equipment
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- Monitoring, Audit, Investigations, Incident Reports, Resolution activities
- General legal, Human Resources

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Administrative v. 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; direction, supervision, management, tracking
- Costs related to training, providers, LMI, performance
- Cost directly associated with a program activity or participant

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Indirect v. Administrative Costs

Not all indirect costs are necessarily classified as administrative costs

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

Remember that the amount chargeable may be limited

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Allocation Bases

Learning objectives for this section

- Identify appropriate bases for allocating costs

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Standards for Acceptable Bases (1 of 2)

- Related to the types of costs being allocated
- Fair measure of cost generation or benefit
- Results in equitable allocation of costs
- Minimal distortion

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Standards for Acceptable Bases (2 of 2)

- 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

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Unacceptable Allocation Bases

- ❌ Funds Available
- ❌ Plans, budgets or estimates not adjusted for actual costs
- ❌ Non-contemporaneous data such as results from prior periods
- ❌ Job descriptions
- ❌ Number of staff hours budgeted to an activity not adjusted to actual hours
- ❌ Planned expenditure levels
- ❌ Planned participant levels

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Using Inputs as the Base

- Resources used; examples and documentation
- Number of employees - staffing plan
- Number of transactions - transactions count

Inputs

- Traditional method of allocation
- Allocated at time of cost incurred
- Adjustments to plan
 - How the input is being used
 - How the usage varies

- Direct labor hours - timesheets/Personal Activity Reports
- Space usage - floor plan showing space used by program/function

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Using Outputs as the Base


- Work units or products completed
- Numbers served

Outputs

- Documentation
 - Numerical counts
 - Expenditure reports

- Results obtained
- Allocated at the end of the process or period of time
- Percent share of expenditures


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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


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Examples of Bases (1 of 3)

Accounting	Number of transactions, direct labor hours, allowable survey methods
Auditing	Expenditures audited, Direct audit hours
Budgeting	Direct labor hours
Consumable Supplies	Total direct costs, Direct labor hours
Case Manager	Number of current enrollees, Number of participants counseled, Direct labor hours
Data Processing	System usage, Direct labor hours
Disbursing Service	Number of checks issued, Direct labor hours

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Examples of Bases (2 of 3)

Intake	Number of eligible participants, current period enrollments
Equipment	Number of employees, Direct labor hours, Direct expenditures
Office Space	Square feet of space occupied, Direct labor hours
Payroll Services	Number of employees
Personnel Services	Number of employees
Postage	Direct usage, Acceptable survey methods
Reception and intake services	Direct expenditures, Current enrollees

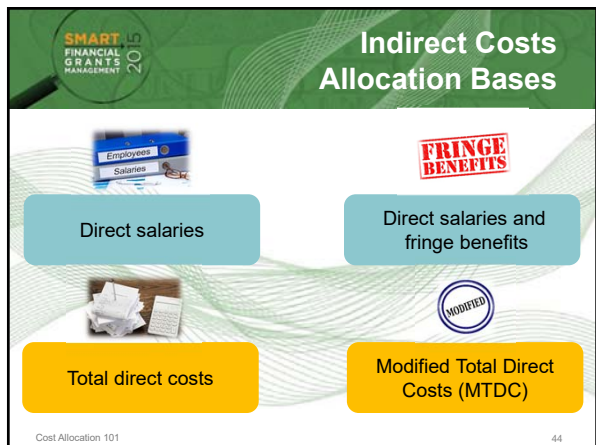
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Examples of Bases (3 of 3)

Printing/Reproduction	Direct labor hours, Job basis, Pages printed
Supplies	Number of employees, Direct labor hours
Telephone	Number of employees, Direct labor hours
Travel	Mileage, Actual expenses, Direct labor hours
Utilities	Square feet of space occupied, Direct labor hours

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Documentation Standards for Distributing Personnel Expenses

Learning objectives for this section

- Learn change to documentation standards for distributing personnel expenses

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Payroll Distribution: Basic Standards for Documentation (1 of 3)

2 CFR 200.430(i) Compensation

Supported by a system of internal controls, Provides reasonable assurances that charges are:

Personal Services, Standards for Documentation of Personnel Services

Accurate

Allowable and Reasonable

Properly Allocated

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Payroll Distribution: Basic Standards for Documentation (1 of 3)

2 CFR 200.430(i) Compensation

Supported by a system of internal controls, Provides reasonable assurances that charges are:

Personal Services, Standards for Documentation of Personnel Services

Accurate

Allowable and Reasonable

Properly Allocated


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Payroll Distribution: Basic Standards for Documentation (2 of 3)

Payroll Distribution Records

- 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

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Payroll Distribution: Basic Standards for Documentation (3 of 3)

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

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Status Check

For each type of expense, identify an acceptable base(s) that may be used to allocate that cost

Expenses

1. Case manager's salary
2. Job developer's travel
3. Employer services costs
4. Joint copier machine
5. Conference room

Bases

- A. Direct labor hours
- B. Direct expenditures
- C. Number of participants currently enrolled
- D. Square footage
- E. Number of units (specify type of units)
- F. Other (specify)

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Key Concepts (1 of 2)

- UG specifically defines direct and indirect costs
- WIOA defines program and administrative costs
- Indirect costs may be program and/or administrative

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Key Concepts (2 of 2)

Policies

UG provides for a de minimis rate for recovering indirect costs for qualifying entities that elect not to request approval for an ICR

Costs that benefit multiple cost objectives must be allocated based on proportional benefits received

Direct costs are allocated with a CAP; indirect costs with an approved ICR or CAP, or de minimis rate

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Knowledge Check

On a scale of 1 (lowest) to 5 (highest), rate your knowledge and understanding of the following by circling the appropriate number in the column of the sheet, labeled Post-Training, for each of the statements.

- The difference between direct costs and indirect costs
- The difference between intermediate and final cost objectives
- Appropriate bases for allocating different types of pooled costs
- I understand the facilities and administration components of an indirect cost rate proposal
- Understand what proportional benefit means

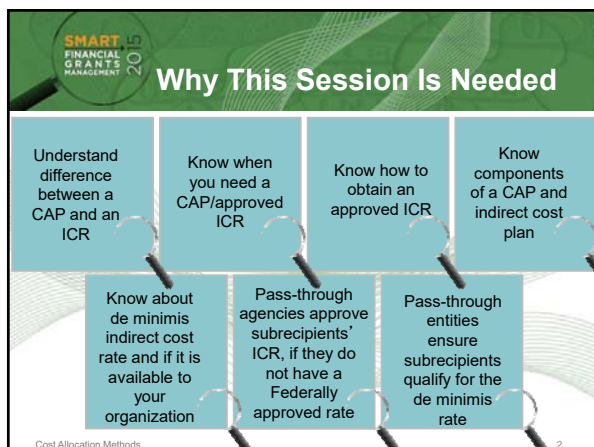
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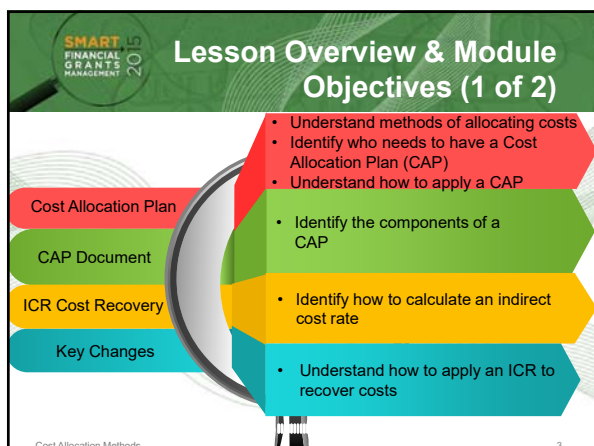
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THANK YOU!

PLEASE COMPLETE YOUR EVALUATIONS







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Lesson Overview & Module Objectives (2 of 2)

- Identify the components of an ICR proposal
- Distinguish between the different types of indirect cost rates
- Understand how and when to apply for an ICR

ICR Proposal

Types of ICRs

Applying For An ICR

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Knowledge Check

On a scale of 1 (lowest) to 5 (highest), rate your knowledge and understanding of the following by **circling** the appropriate number in the middle column of the sheet, labeled Pre-Training, for each of the statements.

?

- Know difference between a Cost Allocation Plan (CAP) and an indirect cost rate (ICR)
- What a de minimis indirect cost rate is and who can use it
- Who is required to have an approved indirect cost rate
- The required contents of a Cost Allocation Plan and indirect cost rate proposal
- How non-Federal entities obtain an approved ICR

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Cost Allocation Plan




Learning objectives for this section

- Understand methods of allocating costs
- Identify who needs to have a CAP
- Understand how to apply a CAP

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Cost Allocation Methods

-  **Cost Allocation Plan (CAP)**
 - Direct Costs
 - Indirect Costs for governmentals
-  **Negotiated Indirect Cost Rate (ICR)**
 - Indirect Costs
-  **De minimis Rate**
 - Indirect Costs

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Does My Organization Need A CAP?

-  If your organization has more than one funding stream or award, Federal or non-Federal, and allowable direct or indirect costs that benefit multiple cost objectives, you need a CAP for direct costs or indirect cost rate for indirect costs
-  Ensures equitable cost-sharing among all benefitting funding streams, Federal and non-Federal

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Allocation Requirement

2 CFR 200.405(d)

- 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

Key provisions

- Direct relationship between the cost and the benefitting cost objective(s)
- Proportional benefit can be determined

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Cost Allocation Example (1 of 8)

Allocate **Monthly Case Management Program Costs** to WIOA Adult, Dislocated Worker, and Youth Programs

- Personnel (cost pool)
- Facilities costs (cost pool)
- Telephone costs (cost pool)

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Cost Allocation Example (2 of 8)

Personnel Costs

- Salaries
 - Supervisor \$ 5,000
 - Case Managers (4) \$ 15,000
 - Total Salaries \$20,000
- Fringe benefits 5,000
- Total Personnel Costs \$25,000

*Fringes at 25% of salaries

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Cost Allocation Example (3 of 8)

Monthly facilities cost pool

- Rent \$6,000
- Utilities, 600
- Maintenance and Repairs 600
- Total \$7,200

- Total space sq. footage (base) 4,000 sq feet
- Space Assigned
 - Case management function 1,000 sq feet
- Facilities cost assigned case mgt. function \$1,800 (25%)

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Cost Allocation Example (4 of 8)

Monthly telephone expense

- Local Service \$2,000
- Line maintenance fees 100
- Total \$2,100
- Total # of phones (base) 50
- Phones assigned
 - Case management function 10
- Local phone costs assigned case mgt. function \$420 (20%)
- Long Distance directly charged to case mgmt. \$180
- Total case management phone charges \$600

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Cost Allocation Example (5 of 8)

Case Management Costs to be Allocated to Programs

- Salaries and fringe benefits \$25,000
- Facilities cost assigned case mgt. function \$1,800
- Telephone charges to case management 600
- Total monthly case management costs. \$27,400

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Cost Allocation Example (6 of 8)

Case Management Costs to be Allocated to Programs \$27,400
Allocation Base – Direct Labor Hours – Input Base

- Total hours devoted to programs (base) (per PAR)

	HRS	%
-Adult	300	50%
-Dislocated Worker	240	40%
-Youth	<u>60</u>	10%
Total	<u>600</u>	

- Case management function costs assigned to programs
- Adult \$13,700
- Dislocated Worker \$10,960
- Youth \$2,740

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Cost Allocation Example (7 of 8)

Case Management Costs to be Allocated to Programs \$27,400
Allocation Base –Participants enrolled EOM –Output base

	Participants	%
- Adult	275	55%
- Dislocated Worker	185	37%
- Youth	<u>40</u>	8%
Total	<u>500</u>	

- Case management function costs assigned to programs
 - Adult \$ 15,070
 - Dislocated Worker \$ 10,138
 - Youth \$ 2,192

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Cost Allocation Example (8 of 8)

Case Management Costs to be Allocated to Programs: \$27,400

	Allocations Bases	
	DLH	Participants EOM
- Adult	\$13,700	\$15,070
- Dislocated Worker	10,960	10,138
- Youth	<u>2,740</u>	<u>2,192</u>
Total	<u>\$27,400</u>	<u>\$27,400</u>

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In Summary

Governing Regulations
 Cost Accounting Standards
 Cost Accounting System
Objective: Adequate Classification of Costs

Cost Allocation Plan

Incurring Cost
 •Necessary
 •reasonable
 •Allocable

Cost Allocation
 •Shared direct costs
Intermediate cost objective
 •Allocated Costs
Final cost objective

Recording
 •Maintaining proper and adequate documentation

Reporting
 •Standard forms
 •Quarterly reports

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Cost Allocation Plan (CAP)

Learning objectives for this section

- Identify the components of a CAP

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Cost Allocation Plan (CAP)

Definition **2 CFR 200.27**

- Cost allocation plan means central service cost allocation plan or public assistance cost allocation plan

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What is a Cost Allocation Plan?

A document that identifies, accumulates, and distributes allowable direct costs (or indirect costs for governmental organizations) and identifies the allocation methods used for distribution

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Cost Allocation Plans (1 of 2)

Minimum requirements

- In writing
- Supported by formal accounting records
- Signed by authorized agency official
- Include a process for reconciliation and adjustment
- Periodically validated and updated

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Costs should then be allocated in accordance with the methodology contained in the CAP

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Cost Allocation Plans (2 of 2)

Keep it simple

Make changes prudently

CAP Considerations

Make it replicable

Consider what is required

- CAP subject to audit
 - Meets cost allocation standards?
- Recommend obtaining prior auditor review of CAP
- Costs allocated consistent with CAP?

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CAP Elements


- Background and mission statement, including organizational chart
- Description of the types of services provided
- Copies of financial statements and current budgets
- Shared expenses included in the cost of services to be allocated
- Allocation bases used for distributing expenses to benefitting cost objectives
- Certification by authorized official

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Background and Mission Statement

- Description of the departments, types of services, and staff functions of the organization corresponding to the organization chart



Current organizational chart

- Departments
- Divisions
- Offices
- Service centers (where costs are accumulated for later allocation)
- Staff functions performed in each unit

Cost Allocation Methods

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Services Provided

Example: Case management division

- There are three case managers and one lead counselor in this division serving WIA Adult, Youth, and Dislocated Worker participants.



They provide the following services:

- Core and intensive assessment services to enrollees
- Ongoing counseling and case management services
- Assessment of need and provision of appropriate supportive services
- Follow-up services as appropriate
- Referral to other services within the organization or outside agencies as appropriate
- Maintenance of case management records

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Financial Statements and Budget



- Include most recent year-end financial statements
- Include the approved budget(s) for the same year corresponding to the financial statements

Cost Allocation Methods

SMART FINANCIAL GRANTS MANAGEMENT 2015

Shared Expenses to be Allocated

Example: Case management division

- All expenses of the division are direct and shared direct costs combined into a single pool.

The expenses include:

- Salaries and fringe benefits of case managers and supervisor
- Business travel expenses of case managers and supervisor
- Space and utility costs allocated to this division
- Supplies and equipment costs allocated to this division

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Allocation Bases

- Allocation bases used for distributing expenses to benefitting cost objectives

Example: Case management division


- The pooled costs of this division are allocated to
 - the WIOA Adult,
 - Youth, and
 - Dislocated Worker programson a monthly basis in proportion to the number of participants currently enrolled in each program on the last working day of each month

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Certification by Authorized Official

Signed by an authorized official


- Chief Financial Officer
- Agency Director



Benefits of a CAP

- Develop budgets and prepare plans
- Distribute shared costs equitably using a non-arbitrary method
- Establish creditable fiscal accountability practices
- Meet Federal cost principles and standards
- Standardize fiscal management policies and practices

Cost Allocation Methods 31




Frequently Found Mistakes

Avoid frequently found mistakes

- No written CAP, costs subject to disallowance
- Not following own CAP, often because it is outdated
- Staff costs not being allocated: Direct charging of staff time to only one program when individuals were working on multiple programs
- Allocation based on budget or funding levels without adjustment for actual costs on at least quarterly basis, per Uniform Guidance

Cost Allocation Methods 32



Example 1: Sample CAP Models MI

Reference pp. 1-3

- Identifies the various categories of expense
- Describes how each category of expense is allocated
- P. 1 A Compensation for Personal Services

Reference p 4. Examples of allocation methods

- Sample calculations

Cost Allocation Methods 33

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Example 2: Sample CAP Models WI

A One-Stop Center
Plan of Service, Reference p. 1

- Types of performance centers and their outputs
 - Intake and initial assessment costs allocated on basis of new enrollments, eligible applicants

Reference p. 2

- Cost allocation methods and justification
 - On p.2, Item 6: direct space
 - Field offices: direct salaries
 - Central office: space usage

Cost Allocation Methods 34

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Status Check

? Is a cost allocation plan the same as an indirect cost rate? If not, what is the difference?

? Does my organization need to have a cost allocation plan?

? What are some examples of cost pools that you use?
– What are the advantages and disadvantages of using those cost pools?

Cost Allocation Methods 35

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Indirect Cost Rates

Learning objectives for this section

- Identify how to calculate an indirect cost rate

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Why Charge Indirect Costs?

Allow recipients and subrecipients to recover costs that cannot be easily allocated without effort disproportionate to the results achieved.

Recipient makes a decision on merits of collecting or not collecting indirect costs associated with grant(s)

Cost Allocation Methods 37

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Why I Would Need a Rate

- Ensure equitable cost-sharing among all funding streams, Federal and non-Federal
- Means of charging administrative costs
- No rate needed if no indirect costs in budget
- A rate is required if recipient has a direct Federal cost reimbursable grant, has more than one funding stream or award, and will request reimbursement for indirect costs

Cost Allocation Methods 38

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Do Indirect Cost Rates Apply to Non-Federal Funding?

ALL funding, Federal and non-Federal, is included in rate calculation

Indirect cost rate allocates pooled expenses to all activities, including fundraising and non-Federal activities

Once allocated, non-Federal funding source determines if indirect costs are allowable charges to its Federal awards

Cost Allocation Methods 39

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Allocation of Indirect Costs


- Indirect (F&A) costs mean those costs incurred for a common or joint purpose but not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved
 - Commonly referred to as overhead costs

Method of allocation is an Indirect Cost Rate (ICR)

- Approved by Federal cognizant agency for direct recipients, or pass-through entity for subrecipients
- Cannot charge indirect costs without approved ICR
- Must apply for ICR within 90 days after award

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Indirect Cost Rate Calculation



An indirect cost rate is simply a method used to determine what amount of indirect costs each program (funding stream or award) should pay

$$\frac{\text{Indirect Costs (pool)}}{\text{Direct Costs (base)}} = \text{ICR}$$

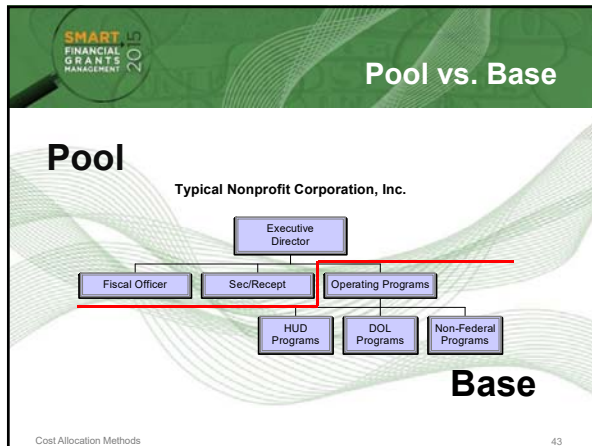
Cost Allocation Methods 41

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Types of Bases Used to Determine ICR

- Direct salaries
- Direct salaries and fringe benefits
- Total direct costs
- Modified Total Direct Costs (MTDC)

Cost Allocation Methods 42



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Direct Costs

DIRECT COSTS

*Salaries & Benefits-directly identifiable with a grant(s)

Six Trainers	\$200,000
Three Counselors	100,000
Total Direct Sals & Bens	\$300,000

*Other Direct Costs-directly identifiable with a grant(s)

Occupancy	90,000
Travel	40,000
Participant Stipends	20,000
Participant Support Services	30,000
Supplies	10,000
Miscellaneous	10,000
Total Other Direct Cost	\$200,000
Total Direct Costs	\$500,000

Cost Allocation Methods 44

SMART FINANCIAL GRANTS MANAGEMENT 2015

Indirect Costs

I	Salaries	\$90,000
N	Fringe	30,000
D	Rent	10,000
I	Consultants	6,000
R	Travel	5,000
E	Supplies	3,000
C	Communications	2,000
T	Miscellaneous	4,000
C	Total Pool	\$150,000
O		
S		

Cost Allocation Methods 45

SMART FINANCIAL GRANTS MANAGEMENT 2015

Indirect Cost Rates Calculation

Indirect Costs	\$150,000	
Direct Costs		
Salaries & Wages	\$300,000	
Other Direct Cost	200,000	
Total Direct Cost	\$500,000	
\$150,000		
\$300,000	=	50% Direct Labor
\$150,000		
\$500,000	=	30% Total Direct Costs

Cost Allocation Methods 46

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Indirect Cost Recovery: Applying the ICR



Learning objectives for this section

• Understand how to apply an ICR to recover costs

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Indirect Costs Allocation—Total Direct Salaries Base

	Total Costs <small>A=(B+C+D)</small>	Unallowable Costs <small>B</small>	Indirect Costs <small>C</small>	Total Direct <small>D=E+F</small>	DOL <small>E</small>	All Other Funding Sources <small>F</small>
Salaries	\$559,000		\$70,000	\$519,000	\$219,000	\$300,000
Benefits	\$176,700		\$21,000	\$155,700	\$65,700	\$90,000
Other Costs	\$171,000	\$10,000	\$69,000	\$102,000	\$40,000	\$62,000
Total	\$936,700	\$10,000	\$160,000	\$776,700	\$324,700	\$452,000

Indirect Cost Rate Calculation/Distribution Using "Total Direct Salaries" as the Allocation Base

Indirect Costs	\$160,000		\$63,295	\$96,705
Total Direct Salaries	\$519,000			
Indirect Rate	28.9%			

Total Costs per Cost Center: \$387,995 a+b / \$538,705

* Must reconcile to the Financial Statements.

Cost Allocation Methods 48

Indirect Costs Allocation— Total Direct Costs

Entity ABC
Statement of Total Costs
FYE 6/30/05

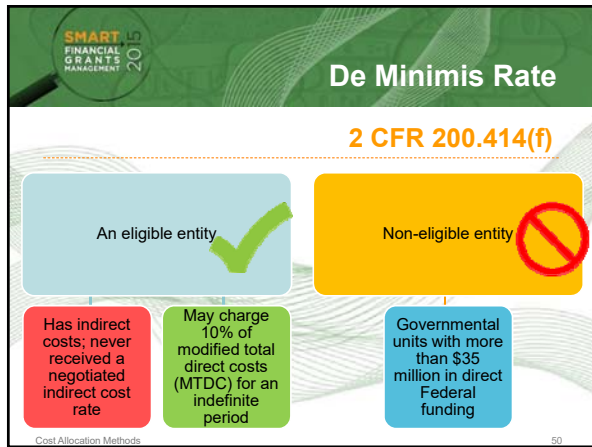
	Total Costs	Unallowable Costs	Indirect Costs	Total Direct DOL	All Other Funding Sources
	A=(B+C+D)	B	C	D=E+F	E
Salaries	\$589,000		\$70,000	\$519,000	\$300,000
Benefits	\$176,700		\$21,000	\$155,700	\$90,000
Other Costs	\$171,000	\$10,000	\$59,000	\$102,000	\$40,000
Total	\$936,700	\$10,000	\$150,000	\$776,700	\$432,000

Indirect Cost Rate Calculation/Distribution Using "Total Direct Costs" as the Allocation Base

Indirect Costs	\$150,000			\$62,708	\$87,292
Total Direct Costs	\$776,700				
Indirect Rate	19.3%				

Total Costs per Cost Center: \$387,408 (a+b) | \$539,292

Cost Allocation Methods Must reconcile to the Financial Statements. 49



Modified Total Direct Costs

+

Actual salaries, wages, fringe benefits, materials and supplies, services, travel; subawards up to the first \$25,000 of each subaward

Modified Total Direct Costs (MTDC)

-


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 Federal cognizant agency

MTDC Exclusions


Cost Allocation Methods 51



De Minimis Rate Applied

Cost Amount	Budget	Direct Expenses	NTDCC	The Indirect Costs
Subgrant Costs:				
Salary and fringe benefits	\$ 2,000,000	\$ 1,600,000	\$ 1,600,000	
Travel	100,000	80,000	80,000	
Supplies	80,000	40,000	40,000	
Office rental	80,000	10,000	10,000	
Printing-Fund	100,000	90,000		
Equipment	100,000	70,000		
Capital Expenditures	100,000	100,000		
Total indirect costs	\$ 2,600,000	\$ 1,600,000	\$ 1,600,000	
Subgrantee				
A	\$ 1,000,000	\$ 30,000	\$ 30,000	
B	2,000,000	\$ 1,600,000	\$ 1,600,000	
C	1,000,000	\$ 900,000	\$ 20,000	
D	3,000,000	\$ 2,800,000	\$ 38,000	
Total Subgrantee	\$ 7,000,000	\$ 6,800,000	\$ 98,000	
Total Direct Expenditures (DCE)		\$ 8,400,000	\$ 1,698,000	10.00%
Allowable Indirect Costs	\$898,149	\$ 100,000		

Cost Allocation Methods 52




Charging Indirect Costs (1 of 4)

Direct U.S. Department of Labor Grant Recipient

- At rate negotiated with the cognizant agency in a Federally approved indirect cost rate plan, or
- At de minimis rate

Cost Allocation Methods 53



Charging Indirect Costs (2 of 4)

Direct USDOL Grant Recipient as a Pass-through Entity (PTE)

- Accept subrecipients' federally negotiated indirect cost rates
- Negotiate subrecipients' indirect cost rates, if subrecipient has no federally-approved rate, and requests to negotiate a rate with PTE
- Accept subrecipients' use of de minimis rate if subrecipient is qualified to use the de minimis rate

Cost Allocation Methods 54

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Charging Indirect Costs (3 of 4)

Subrecipient of a pass-through entity, and not also a direct Federal recipient

- Request to negotiate rate with pass-through entity, or
- Use de minimis rate

Cost Allocation Methods 55

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Charging Indirect Costs (4 of 4)

Subrecipient of a pass-through entity, and also a direct Federal award recipient

- Has a current and cognizant agency approved ICR
 - Use rate negotiated with the cognizant agency
- Does not have a current and cognizant agency-approved ICR
 - Negotiate an ICR with the cognizant agency and use that rate, or
- Request the use de minimis rate
 - If certain conditions are met

Cost Allocation Methods 56

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Status Check

Are the statements true or false?

- ?** I can choose not to charge indirect costs to my Federal grant even if my organization has indirect costs that would qualify.
- ?** If my organization has a Federally funded grant awarded by a pass-through entity, I must apply for a Federally approved indirect cost rate.
- ?** I can use a de minimis rate to charge indirect costs to a Federal grant only when I have a grant directly funded by the Federal government.

Cost Allocation Methods 57

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MOU Requirements

WIA established requirements for one-stop system

WIOA

Resource sharing among partners to operate one-stop system and pay proportionate share of costs

Provides for agreement on infrastructure funding

Use a portion of funds to pay fair share of:

- Maintaining the one-stop system
- Making applicable core services available

ETA will be issuing guidance

Not covered in today's presentation

Cost Allocation Methods 58

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A CAP for Shared Costs

Identify shared services and costs

Determine how to provide shared services and make each partner's core services available

Create a budget for system and shared services costs

Determine proportionate share

Select appropriate allocation bases; identify measures of benefit to achieve proportionate sharing of costs

Cost Allocation Methods 59

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Methods of Allocation

In the Aggregate (Bottom line basis)
• Covering all of the One-Stop shared costs

On an activity basis
• Covering the total costs of a particular activity or function

On an item-of-cost basis

Some combination of the above

Cost Allocation Methods 60

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Indirect Cost Rate Proposal Document

Learning objectives for this section

- Identify the components of an ICR proposal

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Handout 1—ICR Checklist

- ✓ 1a. Organization Chart
- ✓ 1b. Compliance with documentation of personnel expenses
- ✓ 1c. Signed cost policy statement
- ✓ 2. ICR proposal
 - ✓ Personnel costs worksheet
 - ✓ Allocation of personnel worksheet
 - ✓ Fringe benefits worksheet
 - ✓ Statement of total costs
 - ✓ Statement of Indirect costs
- ✓ 3. Audited financial statements
- ✓ 4. Certification

Cost Allocation Methods 62

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Handout 2—Examples

- Signed cost policy statement – III-14-18
- Personnel costs worksheet – III-2
- Allocation of personnel worksheet – III-4
- Statement of total costs and distribution of indirect costs to cost centers – III-8/10
- Certification – III-19

Cost Allocation Methods 63

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Types of Indirect Cost Rates

Learning objectives for this section

- Distinguish between the different types of indirect cost rates

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Types of Indirect Cost Rates (1 of 2)

Predetermined Rate

- Estimate not exceeding rate based on actual costs

Fixed Rate

- Difference between estimate and actual carried forward as adjustment to rate for next period

Provisional Rate (or billing rate)

- Temporary, adjusted when final rate determined

Cost Allocation Methods 65

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Types of Indirect Cost Rates (2 of 2)

Final Rate

- Determined after base period has passed

10 percent de minimis rate

- In lieu of a negotiated indirect cost rate, if qualified to use
- Applied against MTDC
- Can be used indefinitely until a negotiated indirect cost rate is requested

Cost Allocation Methods 66

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Approved Rate Applies to All Grants



All Federal agencies accept the rate as Federally approved for their grants as well



Includes situations when the organization is a subrecipient of another grant



Actual allowable charges may be limited


- Grant budget
- Cost limitations
- Federal regulations
- Available funds

COST ALLOCATION METHODS 67

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Applying for a Federally Approved Indirect Cost Rate

Learning objectives for this section



- Understand how and when to apply for an ICR

COST ALLOCATION METHODS 68

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Cognizant Federal Agency (Direct Recipient)

2 CFR 200.19

Cognizant agency for indirect costs

- The Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals on behalf of all Federal agencies
- ICR proposal submitted to the cognizant Federal agency.
- Largest dollar volume of **direct** Federal funding (normally) determines the cognizant agency. Concept flows down to state, local, or other levels of funding.
- HHS is cognizant for all States' Statewide Indirect Cost Allocation Plans (SWICAP) and for most educational institutions; for info: <http://rates.psc.gov/>
- If DOL recipient, visit Division of Cost Determination (DCD) link for info: <http://www.dol.gov/oasam/boc/dcd/>

COST ALLOCATION METHODS 69

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When do you submit a proposal and when does it get reviewed/approved?

- New proposal must be submitted no later than three months after effective date of DOL award
- Next proposal must be submitted no later than six months after close of organization's fiscal year
- Extensions may be granted
- Cognizant agency has 120 days turn around from receipt. Exceptions allowed for extenuating circumstances

Never had a Federally approved indirect cost rate

Have a Federally approved indirect cost rate

Cost Allocation Methods 70

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Applicable Uniform Guidance References

Institutions of Higher Education

- New: Uniform Guidance Appendix III

Non-Profit Organizations

- New: Uniform Guidance Appendix IV

State/Local Governments and Indian Tribes

- New: Uniform Guidance Appendix VII

Commercial organizations FAR 48 CFR 31.2, 42.7 and 52.216.7

HHS publication ASMB C-10, Attachment E provides guidance on ICR proposals

Cost Allocation Methods 71

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Resources (1 of 2)

Guides to Developing Cost Allocation Plans and Indirect Cost Rate Agreements

- "A Guide for Indirect Cost Determination"
 - Issued by DOL–OASAM January 2015
 - For non-profits and commercial organizations
 - Requirements and sample work papers
 - <http://www.dol.gov/oasam/boc/DCD-2-CFR-Guid-Jan2015.pdf>
 - Section II: Indirect cost Proposal Checklist
 - Section III: Exhibits

Cost Allocation Methods 72

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Resources (2 of 2)

- ASMB C-10 Guide
 - Issued by HHS
 - For state and local governments
 - Includes a Q&A section

<https://rates.psc.gov/fms/dca/ASMBc-10.pdf>

Cost Allocation Methods 73

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Resources and Assistance

For more information and assistance:

- One Stop Financial Management Technical Assistance Guide:
http://www.doleta.gov/grants/pdf/TAG_PartII_July2011.pdf
- DOL's Division of Cost Determination:
<http://www.dol.gov/oasam/boc/dcd/np-comm-guide.htm>

Cost Allocation Methods 74

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Status Check


Answer the following questions:

- ?** When is my new indirect cost proposal due if I have never had a Federally approved rate?
- ?** When is my next proposal due if I currently have a Federally approved indirect cost rate?


Cost Allocation Methods 75

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Key Concepts (1 of 2)



An ICR allocates indirect costs that cannot be easily allocated without effort disproportionate to the results achieved



A CAP allocates direct costs (or indirect costs for governmentals) to benefitting cost objectives using a base that best measures benefit




De minimis rate (10% of MTDC) can be charged by entities meeting certain conditions (200.414(f))


Cost Allocation Methods 76

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Key Concepts (2 of 2)



An indirect cost rate proposal requires the recipient to provide specific documentation and meet certain timeframes (200.416 and Appendices)



Pass-through entities have responsibilities to their subrecipients regarding indirect costs (200.331)



Guidance is available from a number of sources

Cost Allocation Methods 77

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Knowledge Check

On a scale of 1 (lowest) to 5 (highest), rate your knowledge and understanding of the following by **circling** the appropriate number in the column of the sheet labeled Post-Training for each of the statements.

?

- Know difference between a Cost Allocation Plan (CAP) and an indirect cost rate (ICR)
- What a de minimis indirect cost rate is and who can use it
- Who is required to have an approved indirect cost rate
- The required contents of a CAP and indirect cost rate proposal
- How non-Federal entities obtain an approved ICR

Cost Allocation Methods 78



Thank You!

Please complete your evaluations.

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Personnel Compensation, Labor Distribution, Payroll Reports

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Why This Session Is Needed

Changes in the new uniform guidance:

- Documenting payroll cost distribution
- Allowable personal services costs
- Allowable fringe benefit costs

Salary cap limitations for many ETA grants

Personnel Compensation, Labor Distribution, Payroll Reports 2

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Lesson Overview & Module Objectives

- Identify the standards for documenting personnel services
- Identify the standards for allowable personal services
- Identify the standards for fringe benefit costs
- Define and apply the salary cap limitations associated with ETA grants

Documenting Payroll Distribution

Compensation: Personal Services

Compensation: Fringe Benefits

ETA Salary Cap

Personnel Compensation, Labor Distribution, Payroll Reports 3

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Knowledge Check

On a scale of 1 (lowest) to 5 (highest), rate your knowledge and understanding of the following by **circling** the appropriate number in the middle column of the sheet, labeled Pre-Training, for each of the statements.

- Allowable personal services costs under the Uniform Guidance
- Allowable fringe benefit costs under the Uniform Guidance
- Documentation of payroll distribution resulting from the changes in the Uniform Guidance
- The role of an internal control system in supporting the method of payroll distribution
- The source of the salary cap limitation, the grants to which it applies, and how it is computed

Personnel Compensation, Labor Distribution, Payroll Reports 4

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Documenting Payroll Distribution

Learning objectives

- Identify the standards for documentation of personnel services costs

Personnel Compensation, Labor Distribution, Payroll Reports 5


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Basic Standards for Documentation (1 of 4)


2 CFR 200.430(i)

Compensation—Personal Services
Supported by a system of internal controls

- Provides reasonable assurances that charges are:


Accurate


Allowable and reasonable


Properly allocated

Personnel Compensation, Labor Distribution, Payroll Reports 6

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Basic Standards for Documentation (1 of 4)


2 CFR 200.430(i)


Compensation—Personal Services

Supported by a system of internal controls

- Provides reasonable assurances that charges are


Accurate


Allowable and reasonable


Properly allocated

Personnel Compensation, Labor Distribution, Payroll Reports 7

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Basic Standards for Documentation (2 of 4)

Payroll distribution records

- Incorporated into the official records
- Reasonably reflect the employee's total activity
- Encompass 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



Personnel Compensation, Labor Distribution, Payroll Reports 8

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Basic Standards for Documentation (3 of 4)

Payroll records meeting these standards do not need to further document 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

Personnel Compensation, Labor Distribution, Payroll Reports 9

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Basic Standards for Documentation (4 of 4)





Federal government may require personnel activity reports or equivalent if records do not meet these standards

Institutions of Higher Education may express categories of activities as a %
Intermingled Duties: precision not always feasible

Personnel Compensation, Labor Distribution, Payroll Reports 10

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Use of Budget Estimates

- Alone does not qualify as support
- May be used for interim accounting purposes provided:
 -  They reasonably approximate actual activity performed
 -  Entity identifies and records significant changes in activity
 -  Entity has IC system to review after-the-fact actual charges and make needed adjustments
 -  Payroll distribution is reasonable over the long term

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Use of Budget Estimates

- Alone does not qualify as support
- May be used for interim accounting purposes provided:
 -  They reasonably approximate actual activity performed
 -  Entity identifies and records significant changes in activity
 -  Entity has IC system to review after-the-fact actual charges and make needed adjustments
 -  Payroll distribution is reasonable over the long term

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Substitute Systems

2 CFR 200.430(i)(5)

Limited applicability


- Only states, local governments, Indian tribes
- Requires approval of cognizant agency for indirect costs
 - Random moment sampling
 - "Rolling" time studies
 - Case counts
 - Other quantifiable measures of work performed
- Sampling must meet statistical sampling standards
- Cognizant agencies encouraged to approve proposals based on outcomes and performance milestones

Personnel Compensation, Labor Distribution, Payroll Reports 13


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Why This Change?


Establish controls for efficiency and payroll disbursements



Audit testing of payroll distribution method as part of internal control system review



Allows non-Federal entities the flexibility to design and implement an internal control system that best fits its needs



Overall emphasis on a strong internal control system

Personnel Compensation, Labor Distribution, Payroll Reports 14

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Status Check

- 1 ? Must the records used for documenting payroll distribution provide absolute assurance that the costs are accurate, allowable, and properly allocated?
- 2 ? Must the payroll distribution system be fully described and documented in the organization's internal control procedures?
- 3 ? May budget estimates alone be used to distribute payroll expenses?
- 4 ? Must personnel activity reports always be used to document payroll distribution, as previously required in A-87 and A-122?
- 5 ? May a Federal agency require the use of personnel activity reports if the recipient fails to meet the payroll distribution standards in the Uniform Guidance?

Personnel Compensation, Labor Distribution, Payroll Reports 15

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Status Check

- 1. Must the records used for documenting payroll distribution provide absolute assurance that the costs are accurate, allowable, and properly allocated?
- 2. Must the payroll distribution system be fully described and documented in the organization's internal control procedures?
- 3. May budget estimates alone be used to distribute payroll expenses?
- 4. Must personnel activity reports always be used to document payroll distribution, as previously required in A-87 and A-122?
- 5. May a Federal agency require the use of personnel activity reports if the recipient fails to meet the payroll distribution standards in the Uniform Guidance?

Personnel Compensation, Labor Distribution, Payroll Reports 16

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Compensation: Personal Services

Learning objectives for this section

- Identify the standards for allowable personal services

Personnel Compensation, Labor Distribution, Payroll Reports 17

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Basic Criteria for Match

2 CFR 200.430

Compensation—personal services

Criteria

- 1. Reasonable
- 2. Conforms to established written policy
- 3. Follows an allowable appointment
- 4. Meets documentation requirements
- 5. Same standards apply to salaries and wages used to meet cost sharing or match requirement

Personnel Compensation, Labor Distribution, Payroll Reports 18

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Reasonable Level of Compensation

-  If consistent with level of compensation paid to employees doing similar work in other activities
-  Or if no similar position, cost is comparable to that paid for similar work in the labor market
-  Separate salary cap requirement applicable to ETA-funded grants (addressed later)

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Reasonable Level of Compensation

-  If consistent with level of compensation paid to employees doing similar work in other activities
-  Or if no similar position, cost is comparable to that paid for similar work in the labor market
-  Separate salary cap requirement applicable to ETA-funded grants (addressed later)

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Incentive Compensation

-  If based on cost reduction, efficient performance, suggestions/safety awards, etc.
-  Allowable to extent that overall compensation is determined to be reasonable
-  Pursuant to an agreement between recipient and employee before services were rendered or pursuant to established plan

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Discretionary Recipients

IMPORTANT CHANGE - BUDGET MODIFICATION & PRIOR APPROVAL PROCESS

For funds awarded after December 26, 2014, requests for budget modifications must be submitted in writing at least 30 days before the effective date of any change	A transfer of funds among cost categories that is expected to exceed 10% of the total last approved budget requires Grant Officer approval	Previous ETA requirement that all changes in salaries and fringe benefits required Grant Officer approval is no longer applicable.
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Federal Funding Accountability and Transparency Act (FFATA)

- Prime recipients (receiving Federal funding through Federal awards) 2 CFR Part 170
 - threshold of \$25,000
 - reporting of subawards
 - reporting of five highest compensated individuals
- Single, searchable website www.fsrs.gov
 - Data uploaded into USASpending.gov
- Not an ETA reporting system
- ETA pre-populates prime recipient award information
- Details available online in ETA training library




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Compensation: Fringe Benefits

Learning objectives for this section

- Identify the standards for fringe benefit costs



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Fringe Benefit Standards

General Standard: Allowable if:

Reasonable and required by Law	Applies to
<ul style="list-style-type: none">• Entity-employee agreement or• Established written policy of entity	<ul style="list-style-type: none">• Leave• Social Security• Life and health insurance• Unemployment compensation• Workers compensation• Pension plans• Severance payments

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Assigning Cost of Fringe Benefits

Identifying specific benefits for specific individual employees,

or

Allocating on basis of entity-wide salaries and wages

- Separate allocations to selective groupings of employees unless
- Costs in relationship to salaries and wages do not differ significantly for different groups of employees

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Recognition of Leave Costs

Cash basis	<ul style="list-style-type: none">• Cash recognized when taken and paid• Unused leave after retirement or termination allowable in year of payment
Accrual basis	<ul style="list-style-type: none">• May only be used when a liability as defined by GAAP exists when leave is earned• At the lesser of amount accrued or funded
Uniform Guidance	<ul style="list-style-type: none">• Reflects new family friendly leave policies

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Pension Costs

Allowable if:

- Reasonable
- In accordance with established policy
- Method of allocation is not discriminatory
- If accrual basis: assigned to fiscal year in accordance with GAAP
- Funded for all plan participants within six months after year-end

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Severance (1 of 2)

Allowable if required by:

- Law
- Employer–employee agreement
- Established policy that constitutes an implied agreement, or;
- Circumstances of the particular employment

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Severance (2 of 2)

Normal turnover severance


- Paid and allocated to all activities or;
- Reserve acceptable if charge to current operations is reasonable in light of past payments and if charged to all activities
- Mass abnormal severance
 - Accruals generally not allowable; prior approval required

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Other Provisions

- Employee morale provision replaced by allowing for the limited use of Employee Health and Welfare Costs that improve working conditions
- Institutions of Higher Education only
 - Tuition for individual employees are allowable if granted per established policy and distributed to all activities on equitable basis
 - Not allowable for family members
 - Other detailed provisions in Uniform Guidance



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Pay-As-You-Go Methods

-  Insurance premiums for Unemployment Insurance, Workers Compensation, health insurance, etc.
-  Pension plan termination insurance premiums under Employee Retirement Income Security Act (ERISA)
-  Leave when taken and paid for
-  Direct payments for workers compensation, unemployment compensation, severance pay, post-retirement health insurance, and similar benefits

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Funded Reserves (1 of 2)

Reserves for self-insurance for Unemployment Compensation and Workers Compensation allowable if:

- Based on reasonable estimates of the liabilities
- Types and extent of coverage and the rates/premiums would have been allowable had insurance been purchased to cover the risks

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Funded Reserves (2 of 2)

Pension plan costs and post-retirement health plans

Pay-as-you-go method

or

Acceptable actuarial cost method in accordance with established written policies


See 200.431 for extended provisions on methods of calculation and timeframes for payments

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Unallowable Payments (1 of 2)

- ❌ Automobiles unallowable for personal use as fringe benefit or indirect F&A
- ❌ Late charges, excise taxes, penalties under ERISA
- ❌ Severance in excess of normal amounts or paid contingent on change in management control




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Unallowable Payments (2 of 2)

- ❌ Pension fund losses
- ❌ Increased pension costs due to delay in funding the actuarial liability beyond 30 days after each quarter
- ❌ Penalties, fines, interest expense



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Status Check

Are the statements true or false?

- ?** OMB's Uniform Guidance consolidates into one set of standards the guidelines for allowable personal services and fringe benefit costs that apply to governmental organizations, non-profits, and institutions of higher education.
- ?** General standards for the allowability of personal services and fringe benefit costs are that they must be reasonable, in accordance with established written policy, and afforded consistent treatment between Federal and non-Federal awards.
- ?** A recipient has discretion in establishing salary rates under a Federal award when it does not have any other Federal award with comparable Federally funded positions.

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ETA Salary Cap

Learning objectives for this section

- Define and apply the salary cap limitations associated with ETA grants

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Implementing PL 109-234 and WIOA Section 194

ETA Salary and Bonus Limitations

- Applies to all ETA appropriated funds
 - All grants, contracts, and interagency agreements
- Applies to funds available beginning on June 15, 2006
- Limits salary and bonus payments to individuals
- Implementation guidance in TEGL 5-06


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Salary Cap

Applies to:

- ✓ All WIOA funds
- ✓ Wagner-Peyser
- ✓ UI Administration
- ✓ Older Worker programs
- ✓ Native American 477 funds
- ✓ Veterans' program funds




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Exclusions

- ✗ H1B—funded by employer fees
- ✗ DUA—FEMA appropriated funds
- ✗ Job Corps—a separate limitation applicable
- ✗ WIA Incentive grants—funded by DOE appropriation
- ✗ UI Benefits—State Trust Fund




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Who Is Covered?

- Individuals paid by ETA appropriated funds and WIOA funds
- Direct recipients and/or subrecipients
- Anyone receiving wages or bonus payments from recipients or subrecipients whose grants are funded from ETA appropriations
- Direct costs or through an indirect cost rate, including cost allocation plans
- Contractors are not subject to limitation



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What Is Included?

Included	Exclusions
<ul style="list-style-type: none"> • Compensation included on IRS form W-2 • Includes monetary awards, bonus payments, and monetary prizes • Profit sharing, when paid pursuant to established personnel policies as supplement to salary • Sole proprietor or partnership compensation for income realized on IRS Schedule C or E 	<ul style="list-style-type: none"> • Fringe benefits • Non-monetary compensation and corporate profit • Corporate profits paid on per share basis that have required investment

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The Cap Limitation

- Full Time RATE not to exceed Executive Level II
 - 2015 maximum is \$183,300
 - Adjusted annually by OPM
- Expressed as annual or hourly amount
- Calendar year basis – IRS definition

OPM site:
<http://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/>

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Other Provisions

- States may set lower limits for subrecipients
- Salaries paid by multiple fund sources must be allocated and calculated accordingly
- Salaries paid through indirect cost rates must be calculated accordingly
- Does not impact consultant rate restrictions

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Cap Example: Full Time Charged to an ETA Funded Grant or WIOA Funds

Position	Annual Rate	Time spent on the Grant	Salary Cap Limit	Amount over Cap
Director	\$200,000	100%	\$183,300	\$16,700
Manager	\$100,000	100%	\$183,300	0
CFO	\$180,000	100%	\$183,300	0

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Cap Example: Part of Time Charged to an ETA Funded Grant

Position	A) Annual Rate	B) % of Time on ETA grant	C) ETA Grant Share (A * B)	(D) Salary Cap Limit (B * \$183,300)	(E) Amount over Cap (C - D)
Director	\$200,000	50%	\$100,000	\$91,650	\$8,350
Manager	\$100,000	25%	\$25,000	\$45,825	0
CFO	\$190,000	50%	\$95,000	\$91,650	\$3,350
Special Assistant	\$100,000	75%	\$75,000	\$137,475	0

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Cap Example: Indirect Costs Charged to ETA Funded Grant

Position	% of Indirect Costs Allocable to ETA Grant	Actual Salary	40.5% of Salary Allocable to ETA Grant	Salary Cap Limit 40.5% * \$183,300	Amount Over Cap Limit
HR Director	40.5%	\$180,000	\$72,900	\$74,237	0
CFO	40.5%	\$200,000	\$81,000	\$74,237	\$6,763

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Resources

ETA salary cap implementation guidance in TEGL 5-06

To find most recent salary cap level, go to the Office Personnel Management website at <http://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/>

- Find Executive Level II pay rate
- Updated annually



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Key Concepts



Standards for Documentation of Personnel Services costs in the OMB Uniform Guidance have some changes compared with the previous OMB Circulars



Standards for allowable personal services costs and fringe benefit costs under Uniform Guidance have more limited changes




Apply the salary cap limitations associated with ETA grants

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Knowledge Check

On a scale of 1 (lowest) to 5 (highest), rate your knowledge and understanding of the following by circling the appropriate number in the middle column of the sheet, labeled Pre-Training, for each of the statements.



- Allowable personal services costs under the Uniform Guidance
- Allowable fringe benefit costs under the Uniform Guidance
- Documentation of payroll distribution resulting from the changes in the Uniform Guidance
- The role of an internal control system in supporting the method of payroll distribution
- The source of the salary cap limitation, the grants to which it applies, and how it is computed

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