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Category: Finance (F)
Subject: Workforce Investment Act (WIA) Memorandum of Understanding (MOU) and Cost Allocation Guidelines
Source: State/Federal
Revise/Replace: N/A
Contact: Finance/Audit
Distribution: All Workforce Boards and One-Stop Center Director, Program, Financial, and Administrative Staff. CDLE Employment and Training Programs and Financial Staff.
Colorado One-Stop System Policy Guidance Letter #: 00-17-F1
Date: June 20, 2000

I. REFERENCES:

The Workforce Investment Act (WIA), Public Law 105-220 of 1998; 20 Code of Federal Regulations (CFR) 662.270, 662.280, 662.300 and 661.350; Federal Cost Principles set forth in Office of Management and Budget (OMB) Circulars A-21, A-87, A-122. U.S. Department of Labor, Employment and Training Administration JTPA Financial Management Technical Assistance Guide (TAG), dated January 1995.

II. PURPOSE:

The purpose of this Policy Guidance Letter (PGL) is to reinforce the WIA statutory and regulatory requirements regarding the MOU description of how cost of services and operating costs will be funded. In addition, this PGL provides the Federal Designated Workforce Investment Boards (WFBs) and each of their One-Stop center(s) with general guidelines for the development of the methods of allocation that may be used for allocating costs among the One-Stop partners.

III. BACKGROUND:

The One-Stop delivery system is designed to be a seamless service delivery system for the customer. Additionally, available services will be provided from various entities with different funding accountability responsibilities. Because of these various funding streams and to ensure that each One-Stop partner contributes its fair share of the costs of maintaining the center, each One-Stop center's Memorandum of Understanding (MOU) must describe the funding arrangements for services and operating costs. As stated at 20 CFR 662.270, there are a number of methods, including allocations based on direct charges, cost pooling, indirect cost rates and activity–based cost allocations plans, consistent with the requirements of the relevant OMB circulars, that may be used for allocating costs among the partners.

IV. POLICY/ACTION:

In accordance with Section 121(c)(2) of the WIA and 20 CFR 662.300(b) of the Interim Final WIA Regulations, how the costs of services and the operating costs will be funded must be included within each MOU. In accordance with 20 CFR 661.350(a)(3)(ii), the Workforce Region's (WR's) five-year plan must include a copy of the local MOU(s) between the WFB and each of the One-Stop partners. Therefore, as part of the review of the WR's plan, the MOUs are subject to State review to ensure the costs of services and operating costs are adequately described.

In accordance with the Cost Principle OMB Circulars, to be allowable, costs must be allocable to Federal awards in accordance with the provisions of the OMB Circular. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

This PGL provides the WFBs and their One-Stop operators with general guidelines of the minimum requirements of and assistance in the development of the methods of allocation that may be used for allocating costs among the One-Stop partners. Implementing such an allocation method will help ensure each partner is contributing a fair share of the operating costs of the One-Stop center proportionate to the use of the system by individuals attributable to the partner's program and enhance the One-Stop's compliance with the Cost Principle OMB Circulars. One-Stop centers will be subject to the review of their methodology for allocating costs among its One-Stop partners during CDLE's on-site monitoring reviews.

V. IMPLEMENTATION DATE:

The PGL is effective July 1, 2000.

VI. INQUIRIES:

Inquiries concerning this PGL, should be directed to the Office of Finance, 303-318-8050 or the Office of Employment and Training Programs, 303-318-8800.

Melvin Madden	Robert D. Hale, Director
Associate Director for Finance	Division of Employment and Training

Attachment 1 – Cost Allocation Guidelines

COST ALLOCATION GUIDELINES

I. COST ALLOCATION GUIDELINES

A. Basic Cost Principles and Guidelines

It is important to consider the following factors in incurring and classifying costs:

1. **<u>Allowability</u>:** To be allowable, a cost must be necessary and reasonable for the proper and efficient administration of the program. To reduce risk of accumulating and being held accountable for disallowed costs, you should carefully review anticipated program expenditures, the terms and conditions of the award, and applicable regulations before any program costs are incurred.

2. **<u>Reasonableness</u>:** For a cost to be reasonable under an award, it will not exceed the cost that would be incurred by a prudent person under the same circumstances. In determining the reasonableness of a given cost, consideration should be given to:

   - Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.

   - The restraints or requirements imposed by such factors as generally accepted sound business practices, arms-length bargaining, Federal and state laws and regulations, and terms and conditions of the award.

   - Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the government.

   - Significant deviations from the established practices of the organization that may unjustifiably increase the award's costs.

3. **<u>Allocability</u>:** For a cost to be allocable to a particular cost objective, it must be treated consistently with other costs incurred for the same purpose in like circumstances. Any cost allocable to a particular grant or other cost objective under these principles may not be shifted to other Federal grants to overcome funding deficiencies, to avoid restrictions imposed by law or grant agreement, or for other reasons. However, this prohibition would not preclude governmental units from shifting costs that are allowable under two

or more awards in accordance with existing program agreements.

4. **<u>Measuring Benefit</u>:** Measuring benefit is the critical requirement and central task to be performed in allocating costs. Costs are allocable to a particular cost objective on benefits received by that cost objective. When the direct measurement of benefit cannot be done efficiently and effectively, then it is appropriate to pool the costs for later distribution. The allocation base is the mechanism used to allocate the pooled costs to final cost objectives. Care should be taken to ensure that the basis chosen does not distort the results.

B. Cost Allocation Plans – A Method of Documenting Cost Allocation

A CAP documents the method in which an entity identifies, accumulates, and distributes allowable direct and indirect costs under grants and contracts, and identifies the allocation methods used for distributing costs. A plan for allocating joint costs is necessary to support the distribution of those costs to the grant program. Formal accounting records to substantiate the propriety of the eventual charges must support all costs included in a CAP.

A CAP should include, at a minimum, the following elements:

1. An organization chart that identifies all partners, type of services provided, and staff functions.

2. A description of the type of services and programs provided at the center.

3. A copy of the official budget that includes all costs to operate the center.

4. The methods used in allocating the expenses to benefiting cost objectives which includes the following:

   a. A narrative description of the methodology for allocating expenses for each cost objective,

   b. A general description of direct costs and type of costs,

   c. A list of indirect costs, cost pool, basis for allocating each type of pooled cost, and the documentation for supporting each basis for allocation.

d. A summary of the allocation of central services costs that are charged to the One-Stop Center. If this is not applicable, include a statement the One-Stop Center is not charged by the City or County (whichever is applicable) for central services costs.

5. Certification by the One-Stop operator that the methodology of cost allocation has been prepared in accordance with the applicable guidelines. If the One-Stop wishes to certify its CAP, it may use a certification statement similar to the one provided in the PGL on page 14.

C. Factors in Developing a CAP

In developing a CAP, the following factors should be considered:

- **Keep it Simple** – Use the simplest and least costly method possible, based on a measure of relative benefit received, that will produce an equitable allocation of costs to programs.

- **Make it Replicable** – The process that is developed must be replicable at any time.

- **Resources Required** – The required structure and capabilities of your accounting system must be considered in designing an operable cost allocation process.

- **Make Changes Prudently** – Changes in a One-Stop center's CAP that result in a retroactive redistribution of costs to the benefiting cost objective are allowable where the change results in a more equitable distribution of costs. Such changes in allocation methodology should be rare, receive the necessary prior approvals, and be justified and well documented.

D. Cost Allocation Parameters

Some of the cost allocation parameters include:

- Each partner must pay or offset its portion of pooled costs in addition to paying its own direct costs.

- Costs that are prohibited by a funding source (federal, state, or local) may not be paid or used as offset under a pooled cost agreement. For example, if a partner's funding source prohibits entertainment costs, the partner may not pay entertainment costs or use them as an offset under a pooled cost agreement.

- The preference is the use of non-pooled costs over the use of pooled costs whenever possible. Contribution to pooled costs is limited to costs incurred during the period of operation, e.g., purchases made during the period of the agreement. Intrinsic values, like the value of a building that has been fully paid for, may not be included in reimbursable or offsetting cost calculations.

- Costs of capital improvements made for the benefit of the partnership or for an individual partner may be amortized during the term of the partnership.

- Offsets are based on cost. In the case of staff, use actual salary and benefit costs in calculations, not number of staff and function performed. If different individuals will perform the function, then an average of their actual salaries and benefits may be used. Square footage will generally become the allocation basis for space. The cost per square foot becomes a pooled cost that is a direct charge to partners.

E. Development of the CAP

1. <u>Step 1 – Classify Costs</u>

The One-Stop operator and partners must identify the total cost of operation. The identification of costs and the funding in support of those costs are necessary to make the centers sustainable.

Cost classification is the process of labeling direct and indirect costs relative to the cost allocation process.

a.) Direct Costs

i. <u>Direct Costs</u> are costs that are identified specifically with a final cost objective and charged directly to that objective. They may also be costs pending allocation to final cost objectives based on an intermediate cost objective or a cost pool that is used to accumulate costs.

ii. Assignable Direct Costs are costs charged directly to final cost objective that do not require any further allocation or breakdown. Examples of assignable direct costs that are charged to the program include:

- Compensation paid to employees whose time is devoted specifically to the fulfillment of a particular program objective;

- Cost of pre-approved items such as equipment, consultants, and subcontractors for performance of services specifically for the program; and

- Costs of any materials purchased specifically for a particular program.

b.) **Shared Direct Costs** are costs that cannot be readily assigned to a final cost objective, but are directly charged to an intermediate cost objective or cost pool and subsequently allocated to final cost objectives. These costs are incurred for a common or joint purpose benefiting more than one funding stream. An example of shared direct costs that are charged to the program include:

- Case management staff members providing services to participants in all funding streams. It is difficult to identify time spent by case management staff by funding stream. Costs could be directly charged to a category for case managers and later distributed to the proper funding stream using an appropriate allocation method.

c.) **Indirect Costs**

After direct costs have been determined and assigned directly to a cost objective, indirect costs are those remaining to be allocated to the benefited cost objectives.

Indirect costs are costs incurred for a common or joint purpose benefiting more than one cost objective. Therefore, some method of allocation must be used to distribute the indirect costs to various direct activities that are benefited. To distribute indirect costs equitably and consistently, it will be necessary to develop a cost allocation plan. In most cases, indirect costs are administrative costs that are incurred to support the overall operation of the organization.

However, because of the differences among organizations, it is impossible to classify costs that will be indirect in all situations.

2. Step 2 – Determine Cost Pools

Direct and indirect costs may be pooled. Cost pooling is the process of accumulating costs into pools pending allocation to benefiting programs. Similar allocable costs, which may be combined to simplify the allocation process, should be pooled.

In cost pooling, the time and expense to isolate a cost and allocate by usage may cost more than the benefits derived from the process, i.e., telephone charges. In this case the cost should be combined and allocated with other costs in a consolidated larger pool.

The partners may decide the level of cost allocation within the pool. Cost items may be allocated individually or all cost items in the pool can be combined and the total allocated. The decision will depend on the level of budget control required and program reporting requirements.

a.) **Administrative Cost Pool:**
This cost pool may include allowable costs that have been incurred in the overall administration of the agency. An example would be to pool all staff responsible for the overall management, supervision, planning, and monitoring of the agency. This would also include operating costs related to the above staff.

b.) **Facility Cost Pools:**
A cost pool may be broad enough to benefit all co-located programs and integrated service cost centers. An example would be a pool that includes rent, utilities, janitorial, receptionist costs, phone and other facility overhead costs.

c.) **Categorical Cost Pools:**
Some cost pools may contain only specific costs (telephone charges) or type of costs (copier maintenance agreements, copy paper, toner, copier repair) because the benefits from the cost require a special allocation method due to unequal use of benefit across programs or cost centers. Examples may be computer information sharing, copier or telephone costs.

d.) **<u>Organization Cost Pools:</u>**
Some expenditures may benefit only parts of a partnership. Examples are one integrated service area cost center as a pool for all the programs in that cost center or a pool for a subset of the programs within an integrated service area center.

e.) **<u>Co-located Cost Center Cost Pools:</u>**
The partners must also decide the level of cost allocation within the pool. Cost items may be allocated individually or all cost items in the pool can be combined and the total allocated.

3. **<u>Step 3 – Determine if the Cost is Allocable</u>**

To determine the allocation process, you must first understand the nature of the cost and how the benefits will be received. The following are the four major requirements for a cost to be allocable.

a.) Cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

b.) All activities, which benefit from the governmental unit's direct costs, will receive an appropriate allocation of indirect costs.

c.) Any cost allocable to a particular federal award or cost objective under the principles provided for in these guidelines may not be charged to other Federal awards to overcome fund deficiencies, to avoid restriction imposed by law or term of the Federal awards, or for other reasons. However, this prohibition would not preclude governmental units from shifting costs that are allowable under two or more awards in accordance with existing program agreements.

d.) Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required.

4. **Step 4 – Select an Allocation Base**

Once costs to be shared among partners are pooled, a basis of allocation must be agreed upon. An allocation base is a method of documentation used to measure the extent of benefits received when allocating joint costs among partners. An allocation base is acceptable if it represents a fair measure of cost generation or cost benefit, and if it results in an equitable distribution of the costs of services rendered or goods provided. Different pools may be allocated by using different bases.

a.) **Criteria Used** - The following criteria should be used in selecting an allocation base:

i. Minimal Distortion
The base should be distributing costs in a fair and equitable manner without distorting the results. This requires that the base be as causally related as possible to the types of costs being allocated so that benefit can be measured as accurately as possible.

ii. General Acceptability
The base should be generally accepted and in conformance with Generally Accepted Accounting Principles (GAAP). For example, it should be consistently applied over time. The base should also be drawn from the same period, in which the costs to be allocated have been incurred.

iii. Represents Actual Cost or Effort Expended
The base should be a measure of actual cost or actual effort expended. It should not be based solely on a plan, budget, job description, or other estimates of planned activity.

iv. Timely Management Control
The base should be within management's ability to control on a timely basis. The base should produce reliable and fairly predictable results. If the base is erratic and unpredictable, beyond management's ability to control, or not timely, it is likely to produce unacceptable results.

v. <u>Consistency with Variations in Funding</u>
The base must be able to accommodate and withstand changes in funding during the year and from year to year. If the base excludes factors that are affected by variations in funding, it will produce distorted results.

vi. <u>Materiality of Costs Involved</u>
The complexity of the base should be commensurate with the materiality of the costs to be allocated. The base should be sufficiently detailed to provide the most equitable and accurate allocation possible. At the same time, the base should be simple enough to be efficient while still attaining a fair distribution of costs.

vii. <u>Practicality and Cost of Using the Base</u>
The base should be as efficient as possible in terms of the cost or effort in developing it. Thus, wherever possible, use a database that already exists in the financial or participant record keeping and reporting systems rather than create a separate database to be used only for allocating costs.

b.) **<u>Method Used</u> -** Cost allocation methods vary, just as cost types do. The objective of the method used is to ensure reasonableness and equity. Your organization is likely to use several different bases for allocating different types of costs. Once your organization establishes the methods of allocation, that method should be used consistently over time and be described in your cost allocation plan. The following are examples of various cost allocation base options to be used in the allocation process.

i.) <u>Space Allocation</u>
This will include facility wide costs such as rent, utilities, and janitorial. Programs or service area cost centers benefit from those costs in proportion to the work area (square feet), and, in some cases, usage. Other costs that benefit all occupants of the facility, such as copier maintenance, receptionist salary, etc. may also be allocated using this basis. This assumes a correlation between square feet allotted to a partner and number of staff benefiting from those costs.

ii.) Personnel Allocation
This includes any cost where partners benefit from costs in proportion to the staff time worked on them. To use this process, there must be a documented time distribution system. With a time distribution system, costs flow to the area of work emphasis, which normally correlates to funding. This system works well with budget because it creates cost per position relation for expenditures.

iii.) Usage Allocation
Equipment costs, such as copiers, computers, telephones, etc., may be used disproportionately by some programs and require allocation other than space or time. This would require usage logs, such as number of copies or long distance phone calls made. This could be time consuming and expensive for one item of cost.

iv.) Program Output
This process uses production figures and unit costs (e.g., placements, customers trained, assessments, etc.) to allocate costs of integrated service area cost centers to partners. It is based on the assumption that the cost to produce an output across programs is correlated to the results.

v.) Participants Served
This basis uses a point-in-time snapshot of the number of active participants served at the site by each partner's program. It is based on the assumption that the number of participants correlates to the benefits derived by each partner.

5. Step 5 – Summarizing The Cost Allocation and Methodology of Allocating Costs

In order to summarize and assist with how various types of costs are allocated in the One-Stop center, the attached tables can be used to show the cost allocation for each program year.

Instructions for completing each of the Tables are as follows:

Summary of Direct and Shared Costs

First Column - List all the direct and shared costs to be incurred by the One-Stop center. (e.g., salaries, tuition, books, supplies, telephone, etc.)

Second Column - Identify the cost as either Direct "D" or Shared "S".

Third Column - Identify the name of the pool for that cost(s), if shared. (e.g. a shared "administrative" costs pool includes various shared costs such as administrative salaries, supplies, postage, etc.)

Fourth Column - Identify the One-Stop partner(s) that benefit and will be charged the direct or shared cost(s).

Fifth Column - Identify the allocation basis used to allocate the pooled shared costs among the benefiting partner(s). (e.g. the administrative cost pool will be allocated using "direct expenditures" charged to the benefiting partners.)

Summary of Indirect Costs

First Column - List the various One-Stop center indirect cost pools. (e.g. county's indirect costs)

Second Column - List the indirect costs included in each cost pool listed in the first column. (e.g. general administration, treasurer, finance, etc.)

Third Column - Identify the One-Stop partner(s) that benefit and will be charged by the indirect cost pool.

Fourth Column - Identify the allocation basis used to allocate the pooled indirect costs among the benefiting One-Stop partner(s). (e.g., "direct expenditures")

Fifth Column - List the supporting documentation for the allocation basis. (e.g. "general ledger)

Summary of Funding Sources

First Column – List all the One-Stop center programs. (e.g., WIA, Wagner Peyser, DVOP, LVER, etc.)

Second Column – Identify the purpose for each One-Stop center program. (e.g., workforce investment activities, labor exchange, veteran services, etc.)

Third Column – Identify the funding source of each One-Stop center program. (e.g., WIA – CDLE - Federal Funds; TANF – DHS – Federal Funds, etc.)

Fourth Column – Identify the current program year budget for each One-Stop center program. (e.g., PY99, FY00, etc.)

Fifth Column – Identify the program's spending restrictions. (e.g. cost limitations, life of funding, etc.)

6. **Step 6 – Describing the Methodology of Allocating Costs**

The One-Stop operator must develop a description, within its MOU, of the method of allocating costs to each of its One-Stop partners. If the One-Stop operator prepared the tables described to in Step 5, those tables can be used to assist with the description in the MOU. The methodology should describe how each One-Stop partner bears its fair share of the costs of maintaining the One-Stop center.

SUMMARY OF DIRECT AND SHARED COSTS FOR PROGRAM YEAR _______

Type of Cost	Direct or Shared "D" or "S"	Cost Pool, If Shared	Partners Benefiting	Allocation Basis, If Shared

SUMMARY OF INDIRECT COSTS FOR PROGRAM YEAR __________

Type of Cost Pool	Type of Indirect Cost	Partners Benefiting	Allocation Basis	Supporting Documentation

SUMMARY OF FUNDING SOURCES FOR PROGRAM YEAR __________

Program Title	Purpose of Program	Funding Source	2000 Budget Revenue	Restriction of Funding Dollars

ONE-STOP COST ALLOCATION PLAN CERTIFICATION

This is to certify that I have reviewed this One-Stop Cost Allocation Plan and to the best of my knowledge:

> All costs included in this proposal are properly allocable to Federal awards on the basis of beneficial or causal relationship between the expenses incurred and the award to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently throughout the Cost Allocation Plan.

I declare that the foregoing is true and correct.

Name of One-Stop Center ______________________________

Authorized Signature ______________________________

Name of Signor ______________________________

Title ______________________________

Date ______________________________

Glossary of Terms and General Definitions

Allocation Basis – The approximate measure of benefit. The method of documentation used to measure the extent of benefits received with allocating joint costs among multiple cost objectives.

Categorical Cost Pool - Some cost pools may contain only specific costs (telephone line charges) or type of costs (copier maintenance agreement, copy paper, toner, copier repair) because the benefits from the cost require special allocation methods due to unequal use or benefit across programs or cost centers.

Cost Allocation Plan (CAP) – A plan for identifying costs associated with programs. The plan describes the programs for which cost data is needed, the methodology for identifying program specific costs, and the technique used to accumulate cost data.

Co-located Cost Center Cost Pool - Normally, a co-located partner will operate its own accounting system with its own cost pools and allocation methods.

Co-located Services – Services that are provided in a single location but identified with individual partners are considered co-located services. A customer would be directed to a particular section of the office for placement.

Co-location – A situation in which more than one service provider occupies a single facility, or in which more than one service provider has a presence (physically or electronically).

Cost Center – A commonly accepted business term used to indicate a pool, center, or area established for the accumulation of cost(s), such as organizational units, functions, objects, or items of expense, as well as ultimate cost objective, including specific titles, cost categories, grant/awards, program activities, projects, contract, and/or other activities.

Cost Pool – An accounting structure to accumulate costs pending distribution by allocation to benefiting cost centers and/or programs.

Direct Cost - Costs that are identified specifically with a final cost objective and charged directly to that cost objective.

Facility Cost Pool - A cost pool may be broad enough to benefit all co-located programs and integrated service cost centers. An example would be a pool where rent, receptionist costs, utilities, janitorial, home and other facility overhead costs would be recorded.

Indirect Cost - Costs incurred for a common or joint purpose benefiting more than one cost objective.

Integrated Services - Assigning staff from partner agencies to integrated interagency functional teams, as allowed under current law and policy and as resources permit, e.g., staff for assessment, job placement, job development, workshops, training or counselors/case managers; or

Having partner agencies specialize in the delivery of particular functions as part of integrated local service delivery, e.g., one partner runs the assessment center, another runs the employment resource center.

Memorandum of Understanding (MOU) – An agreement developed and executed between the Local Board, with the agreement of the chief elected official, and the One-Stop partners relating to the operation of the One-Stop delivery system in the local area.

Multiple Funding Streams - Funding from more than one source with more than one set of governing standards.

Non-Pooled Costs - Costs that benefit one program and are directly recorded to that program. Common examples are training costs, supportive services and salaries paid by the benefiting program. A cost may be non-pooled in some circumstances and pooled in others.

One-Stop Center - A service point that meets the criteria established**.**

One-Stop Delivery System – In general, a system under which entities responsible for administering separate workforce investment, educational, and other human resource programs and funding streams (referred to as One-Stop partners) collaborate to create a seamless system of service delivery that will enhance access to the programs'services and improve long-term employment outcomes for individuals receiving assistance.

One-Stop Operator – One or more entities whose role may range from simply coordinating service providers within the One-Stop center to being the primary provider of services with the One-Stop center.

One-Stop Partner – An entity that is participating, with the approval of the local board and chief elected office, in the operation of the One-Stop delivery system.

Organization Cost Pool - Some expenditures may benefit only parts of a partnership. Examples are an integrated service area cost center as a pool for all the programs in that cost center, or a pool for a sub-set of the programs within an integrated service area cost center.

Partnership - Collaboration among service providers that results in coordinated services to a community.

Pooled Costs – Shared costs, such as rent, utilities, and phone, which cannot be readily assigned because they benefit multiple programs, service areas, or funding sources (i.e., resource areas and conference rooms) may be considered pooled costs. These accumulated costs are periodically (monthly or quarterly) allocated based on an agreed upon measure of benefit (time distribution, square footage, number of participants, etc.

Program - A grant, appropriation, or other designated fund whose activities, including costs, must be accumulated and reported to the funding sources. Examples of federal programs include Food Stamp, Employment and Training, Wagner Peyser, Workforce Investment Act, etc.

Shared Direct Cost – Shared direct costs are direct costs that cannot be readily assigned to a final cost objective, but which are directly charged to an intermediate cost objective or cost pool and subsequently allocated to final cost objectives.

Workforce Investment Board – The local board established under section 117.