

To: work2future Staff & Subrecipients
From: work2future Director
Effective Date: May 2020
SUBJECT: Cost Allocation
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OPERATIONAL DIRECTIVE

Purpose:

This policy provides guidance regarding the minimum reporting requirements for the Workforce Innovation and Opportunity Act (WIOA) expenditures, and the cost allocation standards specific to that reporting.

That is, the purpose and intent of this policy is to describe the association of cost with reportable WIOA line items of reporting, to describe work2future reasonable cost allocation methodologies, and to generally require subrecipients to have consistent and equitable methods of their own to associated costs to reportable line items. This policy is consistent with the Office of Management and Budget's (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the WIOA Final Rule that follows OMB's Uniform Guidance.

Scope:

The information in this policy applies to all subrecipients receiving WIOA funds. The policy *is not prescriptive as to how* each subrecipient must allocate costs, but rather it establishes that each subrecipient has a responsibility to appropriately associate costs to the final cost objectives (outputs) in an equitable and meaningful way, supported with logical and consistent methodologies.

Effective Date:

This policy is effective upon date of issue.

REFERENCES:

- Title 2 Code of Federal Regulations (CFR) Part 200 "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" (Uniform Guidance):
- Title 2 CFR 200.412, 200.413, 200.414, 200.415 Direct and Indirect Costs.
- Title 2 CFR Part 2900: "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards" (Department of Labor's Exceptions)
- WIOA Public Law 113-128

BACKGROUND:

As a recipient of WIOA funds, it is the policy of San Jose Silicon Valley Workforce Development Board (SJ/SVWDB) to comply with the law and regulations covering allowable direct and indirect costs when associating expenditures to reportable line items of Federal grants and contracts. work2future's Cost Allocation Policy and Procedures (CAPP) for direct and administrative costs sets forth the methodology work2future will use to identify, classify, and allocate WIOA costs to appropriate reportable line items and programs to properly claim cost reimbursements for Federal grants.

Although the CAPP is a city process, service providers are expected to use reasonable methods to associate cost to reportable line items.

As service providers account for the funding they use to provide WIOA services, they will report those costs to work2future by line items and program. work2future will aggregate those reports and supplement it with work2future costs, also associated by line item and program. The process of directly charging and allocating indirect costs to achieve these aggregate reports may differ in method but will be consistent regarding fair and equitable treatment of cost, associated with reportable line items with due diligence, and consistently developed using the accounting entities adopted methodologies. work2future oversees service providers methods in annual fiscal monitoring.

Purpose and Significance of OMB Uniform Administrative Guidance:

Office of Management and Budget (OMB) Uniform Administrative Guidance establishes principles for determining the allowable costs. Furthermore, it provides a foundation for costing methods of nonfederal government agencies.

These principles are for the purpose of cost determination only and do not mandate how costs will be financed (charged to grants). That is, if a cost is accrued for a common purpose, that can be funded by multiple federal programs, the administrative agency has the discretion about how it will charge (finance) that cost between programs.

The OMB principles are designed to provide that the Federal Government bears its fair share of costs allowed under the Federal award

work2future POLICIES AND METHODOLOGY

(Note: As part of this policy, work2future is providing some insights to its costing methods. Again, these are not mandated, but rather illustrate methods that can achieve appropriate outcomes. These steps are included for informational purposes and are not policy.

work2future retains the authority to modify its internal procedures when they are no longer the best options. Factors that might create changes in work2future methods and/or procedures could be better ways to associate costs and/or more efficient methods to achieve reasonable costing results.

It is also important to note that all “allowable” costs that can be charged to WIOA are ones that were incurred for the benefit of the program outcomes. All costs incurred, that benefit the program(s), have been “driven” by the needs and benefit of the program. Essentially, the allowability of a cost, is linked to the need to achieve the outcomes of the program, and in other words, those costs are driven by the program needs. The general anatomy of a cost that can be charged to WIOA is that it must have be driven by program need, and thus by definition are associated to the needs and ultimately the program’s outcomes.)

STEP 1 – Classify Costs as Directly or Indirectly benefiting a Final Cost Objective:

The first step work2future performs is to identifying costs as either fully or partially attributable to a cost objective. This step does not necessarily need to attribute cost to a final cost objective, but when necessary to a cost pool (intermediate cost objective) that will eventually be attributed to final cost objectives. Step 1 is the process of defining the relationship of costs to other homogeneous costs that have same or similar connection to cost objectives (final or intermediate).

The OMB Circulars make it clear that **there are no universal rules** for classifying costs as either direct or indirect. The decision to classify cost as either direct or indirect lies with the degree of clarity the cost connection has to a cost objective, together with the materiality of the cost and the extent of effort needed to achieve fair associations of costs to the cost objectives. Cost allocation is an art and not

necessarily a science. work2future employs the philosophy that it's better to be approximately right than precisely wrong.

Essentially, work2future will use sound judgement to attribute direct and indirect costs to cost objectives with reasonable accuracy, and eventually will gather these costs into final cost objectives (report line items) using equitable, reasonable, and consistent methods.

A. Direct Costs

Direct costs are costs charged directly to cost objectives. These costs have a distinct characteristic regarding what they benefited, and easily understood about the drivers of why they were incurred.

Direct costs may be classified as attributable to a final cost objective or in some cases, attributable to an intermediate cost pool that in turn is attributable to multiple levels of intermediate cost pools that feed into other intermediate cost objectives, or the final cost objectives.

B. Indirect Costs

Indirect costs are those costs that are not readily associate to a cost objective but because they are necessary to achieve program outcomes, must be reasonably associated or allocated to cost objectives (whether intermediate or final). For work2future, they include the general operations of work2future that supports the overall operation of the WIOA program, as well as the cost of other City of San Jose departments that provide central support to work2future.

Since these costs are incurred for a joint and/or common purpose and cannot be readily associate with distinct final cost objectives, work2future accumulates them into an Administrative Cost Pool (ACP) and allocates them to the various programs and line items in those programs.

Below are descriptions used by work2future that define and describe its CAAP:

- Assignable Program Costs: Costs charged directly to cost objectives that do not require any further allocation or breakdown. These costs may include but are not limited to:
 - WIOA Client Costs: These costs are primarily attributable to WIOA clients and the benefits those clients receive (individually or collectively). The cost objective will be WIOA Client Costs. These costs may include tuition costs and other training related cost, supportive services payments and other needs related payments. These are typically paid to third party suppliers, vendors, and providers.

It should be noted that WIOA client costs might benefit groups of clients enrolled in varying programs, and accordingly may be distributed to benefiting programs based on budgeting and financing decisions. Again, as noted above, OMG rules establish the allowability of costs, but not necessarily what programs are required to finance those costs.
 - Staff Payroll: These are salaries and benefits paid to WIOA staff who provide direct client services which are necessary in the delivery of WIOA programs. The source of allocation will be time charges of staff time to a cost objective (program).
- Intermediate Shared Costs: These are costs that cannot be readily associated to a final objective but can be associated to a group of costs accumulated into shared cost pools. Some examples are:

Shared Program Costs: These are program costs that benefit several WIOA or non-WIOA programs and cannot be readily attributable to a final cost objective. These costs are initially accumulated in a Program Cost Pool (PCP) and subsequently allocated to the final cost objectives.

Shared Program Costs-Client Services: These are salaries and benefits paid to program staff who provide services that do not require registration. These costs are initially accumulated in an intermediate cost pool and subsequently allocated to programs based on estimated benefits received.

Administrative Costs and Operating Costs: These are salaries and benefits paid to work2future administrative and clerical support staff and general operating costs that cannot be readily identified to a function or program

STEP 2 – Allocation Methodology

Measuring benefit is the critical requirement and central task in allocating costs. The general rule is that costs are allocated to a cost objective or program only to the extent the program benefits. Likewise, costs that do not benefit an objective are not allocable to and are not charged to that cost objective.

The primary basis for distributing costs through the work2future CAPP is the Personnel Activity Report (PAR). A PAR is a timesheet created by the employee which accounts for 100% of their time. The purpose is to identify efforts spent on multiple activities or programs.

Payroll charge codes are in the time reporting system to identify actual time used for activities or programs.

work2future allocates the costs using methodologies that:

- Result in the equitable distribution of shared costs.
- Is efficiently determined
- Is consistently applied over time

ACTION:

Bring this directive to the attention of all appropriate staff and subrecipients.

INQUIRIES:

If you require further information regarding this policy, please contact the work2future Finance Manager at (408) 794-1146.