**Workforce 3One**

**Transcript of Webinar**

**YouthBuild Webinar Series**

 **Cost Allocation 101**

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MR. KEATING: All right. I am going to welcome you today to today's "Cost Allocation 101" webinar. And to kick things off I'm going to turn things over to Debbie Galloway, fiscal policy team lead from the Office of Grants Management. Debbie.

MS. GALLOWAY: All right. Thank you, Brian. Good afternoon, everyone, and happy Friday to you. On behalf of the Employment and Training Administration we welcome you to this afternoon's webinar on cost allocation.

As Brian had said before, I am the fiscal policy lead in the Office of Grants Management, and joining me today is Victor Lopez, the division chief of the Division of Cost Determination, otherwise known as DCD – DCD located in the Office of the Assistant Secretary of Administration and Management, also under the Department of Labor. Thank you, Victor, for participating today and helping us with each of the next three webinars on cost allocation and indirect cost.

As we get started, please type in any questions that you may have on cost allocation or indirect cost in the chat room, and we hope to answer some of those questions at the end of the webinar. For those questions that we do not have time to answer or we need additional research to – in order to answer, Victor has graciously agreed to post those questions on his office website, which can be found in the resource section of this webinar which I think right now it's been moved away but at the end of the webinar we will put that resource box back up on the screen.

MR. KEATING: Sure. And we can bring those up now. Just so you know, those are also posted as related resources when you registered. So those are all available when you signed in today, but we'll go ahead and post that right below the – it will be in a smaller box below the slides, but you can feel free to bookmark those links. And we're also recording today, and today's recording will be available after the fact as well.

MS. GALLOWAY: All right. Thank you, Brian.

MR. KEATING: You're welcome.

MS. GALLOWAY: OK. So let's continue. Why is this webinar needed? We know many of you have questions on cost allocation and find it to be a puzzling process. For many persons that are not accountants or familiar with indirect cost or cost allocations, the jargon associated with those can cause additional confusion. What does it mean when we talk about shared cost, pool cost, ceilings, and the use of de minimis? Another source of confusion is that there is no single right way to allocate cost. We hope through the next 90 minutes we will unravel the mystery behind the process in cost allocation.

So why is it needed? If you were a grant recipient or a subrecipient that has received a federal award or additional grant funds on or after December 26, 2014, you know that the rules in which one uses to charge or allocate cost has changed. And what is the change? Yes. It is the change of the uniform guidance, also known as the super circular, which can be found at Title 2 CFR Part 200 as well as DOL's exceptions to the uniform guidance which can be found at Title 2 CFR Part 2900. Both these documents are available on the internet at www.ecfr.gov, and they are also located in the resource box on your screen. The documents on this website do incorporate the recent technical corrections for both 2 CFR 200 and 2900 that were published various times during the last year.

The uniform guidance consolidates the federal cost principles that were previously housed under three separate OMB circulars, A-21, A-87, and A-122 into one single set of principles and places them under one roof along with the uniform administrative and audit requirements. The uniform guidance, as stated earlier, is applicable to all grant recipients and subrecipients, including non-profit organizations, states and local governments, Indian tribes, colleges, other institutions of higher education, all of who which – or who may have been awarded grant funds on or after 12/26/2014. Additionally –

MR. KEATING: I'm sorry to cut you off, Debbie. I just want to make sure we're on the right slide.

MS. GALLOWAY: Oh, I'm sorry.

MR. KEATING: You have to forward the slides with that forward arrow.

MS. GALLOWAY: Yes. OK. We're still on the same slide. Thank you.

MR. KEATING: Great.

MS. GALLOWAY: Additionally, the Department of Labor requires commercial or for-profit entities to adhere to the uniform guidance through their OMB approved exception at 2 CFR 2900.2. This resource is also available on the screen under the resource box. Under 2 CFR 2900.2 Department of Labor expands the definition of a non-federal entity to include for-profit or commercial entities along with foreign entities.

So in this webinar we will provide you with new and updated terms that are contained in the uniform guidance. We will go over why cost allocation is needed. Next, we will discuss the basic standards or principles surrounding cost and the way you allocate costs. Then we will talk about the basis in which you use to share or allocate indirect cost, and then we will also identify changes in documenting staff time and effort. And last but still important, we will briefly go over the changes that are forthcoming with the new ETA 9130 financial report, specifically the new section on indirect cost.

So before we get into the meat and potatoes of the webinar, we have a polling question that was at the beginning – or that was at the – on the previous screen. Brian, is it possible to put that – the results of the polling question up?

MR. KEATING: Yeah.

MS. GALLOWAY: OK. So if you have not already taken this poll, we will give you just a couple moments to answer the questions. And we were just asking these questions to better gauge the background and experience of today's audience.

MR. KEATING: All right. Many of you have already figured out how to do it, but just go ahead and click the radio button on your screen to go ahead and vote in that poll. All right. I'll turn it back to you, Debbie, to comment on what you're seeing so far.

MS. GALLOWAY: OK. All right. So the polling question is, what is your involvement in the process of cost allocation? So it looks here from the screen we have a mixed bag of folks joining us today. Included here attending this webinar are people that most likely delve deep into the weeds of cost allocation and are involved in preparing a cost allocation plan or an indirect cost proposal. I bet these same people have a pretty extensive knowledge of Excel and are probably the office gurus on pivot tables.

Next, it looks like we have some folks with a basic understanding of cost allocation and are here to learn more or to find out what those office gurus do with those fancy spreadsheets. And then it looks like we also have folks on the line that are acting in the capacity of an advisory or supporting role, and these may be auditors, federal project officers, and grant officers.

And finally, it looks like we have some grantees or staff that are brand new to the world of cost allocation. Welcome, everyone.

All right. So now that we have the polling question underway and completed, let's move on. We'll go to the next slide. So to start off the presentation we'll talk about the uniform guidance. In this section of the presentation we will review the terms, definitions, and requirements contained in the uniform guidance that relates specifically to cost allocation and cost allocation plans, including indirect cost rates. The meaning of many of these terms has not significantly changed, but let's review some of the key terms and their definitions.

Cost allocation, the definition of cost – of allocation slightly changed in the uniform guidance, but the meaning and impact remains the same as before. As the slide indicates, allocation means the process of assigning a cost or a group of costs to one or more cost objectives in reasonable proportion to the benefit provided or other equitable relationship.

The process may entail assigning a cost directly to a final cost objective through one or more intermediate cost objectives. That may sound confusing, and hopefully we'll be able to answer those confusing questions around cost objectives, whether it's a final objective or intermediate objective, through the course of this webinar.

So let's look closely at the key words in this definition. One or more cost objectives, cost allocation is a process of assigning cost to one or more cost objectives. By doing so you're determining where these costs will be charged and which cost objectives these costs will be assigned to. In reasonable proportion, this requires you to use a method of allocation that meets the test of being reasonable under the cost principle. It is also provides you with latitude to allow you to use an allocation method that provides results and provides a fair distribution of costs and is also practical.

As we discuss later, cost allocation uses approximate proportions rather than exact proportions for distributing cost. Cost allocation is a mix of a science and an art. Benefit provided or other equitable relationship, and this is the method used to allocate cost that must be used to determine equitable benefit. As we will discuss earlier – or discuss later, the method used to determine relative benefit is what we mean by choosing the allocation bases.

Now, let's talk about allocable costs. Allocable costs can be found under 2 CFR 200.401. In theory we can determine what the cost of anything is with certainty, but in reality what and how those cost – some of these costs are allocated to a program or grant is part science and part art. With increasing importance, though, it is essential to congress and other stakeholders to determine the full cost of operating a program by not only charging direct cost but allocating its share of indirect cost to that grant or program.

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 based on relative benefit received. The standard is met if the cost meet the following, is incurred specifically for the federal award, benefits the federal award and other work that the non-federal entity or the non-essential – federal entity and can be distributed in proportion – in proportions that may be approximated using reasonable methods and it also meets the standard that it is necessary to the operation of the non-federal entity and assignable in part to the federal award in accordance with the uniform guidance's cost principles.

Now going on to cost objectives. We previously discussed the cost allocation as an assignment of cost or a group of cost to one or more cost objectives. Consequently, we will discuss exactly what cost objectives are. A cost objective is a program, function, activity, award for which cost data is desired. It may be a major function, particular service or product, federal award, or indirect cost activity. A cost objective is usually expressed as an expense code, and one's accounting system or general ledger say such things as salary or rent.

An intermediate cost objective is used to accumulate indirect cost or service center costs that are subsequently then allocated out from those pools to its final cost objectives. An example of an intermediate cost objective would be a facilities cost pool where all the costs of rent, utilities of those various offices are pooled and then distributed to a number of final cost objectives to a particular program or grant for reporting purposes.

A final cost objective has cost allocated to it as both direct and indirect. It is the final accumulation point in the form of an award, internal project, or other activity. Final cost objectives includes specific funding sources, cost categories, grants, projects, contracts, and other activities. A final cost objective is expressed most likely as a combination of both revenue and expense codes or business units in one's accounting system.

Now on to cost pooling. The first rule for allocating cost is to charge cost directly to a cost objective, wherever possible. In most organizations there are costs that can be directly charged to a cost objective without the need for further allocation. We also recognize that many activities that an organization performs actually benefits several programs, accounts, or other objectives. This makes the assignment of cost more complex and triggers the need for pooling cost before allocating those costs to the final cost objectives.

Thus, accumulating and allocating cost takes some considerable thought and skill to ensure that the method is consistent and equitable among programs and grants. Costs that are not readily chargeable, such as shared or shared indirect cost, to a final cost objective that are often aggregated into cost pools and are periodically allocated or distributed to final cost pools must be done using an appropriate allocation methodology.

Cost pools can be established for any type of cost or grouping of similar cost. Such costs are being assigned to an intermediate cost objective that represents a cost pool. All pooled cost must also ultimately be allocated to the final cost objective and of course in proportion to the relative benefit received for each objective. Such allocations should be performed on a periodic basis, which ideally would be as frequently as quarterly, if not monthly.

Pooled costs are limited to shared direct and indirect cost, and only actual and not budgeted costs may be pooled and charged to various funding streams, programs, or titles. The items of cost that make up the pool must be scrutinized to ensure that all costs are allowable under that organization's grant.

Budgeting pooled costs are sometimes used in indirect cost proposals for establishing provisional rates. However, those provisional rates are subject to change based on final rate proposals and actual cost incurred. Cost pools may also be used for all classifications of costs, including administrative cost, program cost, and indirect cost, which we will discuss later in this presentation.

Cost allocation methods. The process to direct charge cost is fairly straightforward. The process of accumulating and allocating cost, however, takes some considerable thought and skill to ensure that the method is consistent and fair among programs in the grants. Cost allocation can be performed using two different methods, through a cost allocation plan or an indirect cost rate. Cost allocation plans are used to allocate indirect and direct shared cost. If you're only allocating direct shared cost using a cap, that may be sufficient since you are not charging indirect cost. However, if you have more than one funding stream or more than one award or more than one grant and intend to charge indirect cost, there are limited situations in which you are allowed to use a cap. Victor will speak more on this in next week's webinar.

The second method of allocating cost, through an indirect cost rate. Indirect cost rates are either negotiated or approved in order to allocate indirect cost or overhead cost. You must have an indirect cost rate or an approved de minimis rate in order to recover in direct cost. And Victor will be going over the different types of rates and the de minimis rates in the next two webinars.

If many of you work with the WIOA program, you may be aware of the infrastructure funding agreement. Another allocation methodology that is specific to the Workforce Innovation Opportunity Act is the infrastructure funding agreement. The IFA is part of the memorandum of understanding that is negotiated at the local level and contains many features similar to a cost allocation plan.

An infrastructure funding agreement identifies how partner programs are to allocate infrastructure cost when coming together to provide services in a local delivery system. An infrastructure funding agreement is similar to a resource sharing agreement that was found under the Workforce Investment Act, WIA. However, there are additional requirements imposed on such an – or on the IFA agreements in WIOA. ETA will be issuing the final regulations in a joint rule and will include additional sections and information on this subject in the coming months.

As we progress through this webinar, it helps for you to understand that the uniform guidance specifically defines direct cost and indirect cost and that both direct cost and indirect cost may include program and administration costs, which are defined in WIOA and in other program statutes. Direct costs are relatively easy to identify and allocate to a program or cost objective. Indirect costs will again include the accumulation of cost in a pool and then allocate it out based on a methodology based on benefit received.

Now on to direct costs. The uniform guidance defines the direct cost under 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 grant or other internally or externally funded activity and can be directly assigned to such activities relatively easy with a high degree of accuracy. Cost incurred for the same purpose in like circumstances must also be treated consistently as either direct or indirect cost. Additional information on allocable cost can be found at 2 CFR 22.405.

So what are some things that would be considered direct cost? A case manager who works solely with WIA or WIOA youth participants, his or her salary and its associated fringe benefits would be a direct cost to a youth grant. Now, what are some other direct costs? Besides the case managers, we may have direct costs that can be readily assignable to a program such as office space where you know through your floorplan how many cubicles a particular program occupies. Another sample or an example of a direct cost is communication devices. You know how many phones are assigned or how many cell phones are assigned to a set of employees working on one particular program or activity.

Now on to some examples of direct shared cost. Shared costs are a subset of direct costs. They are costs that benefit more than one cost objective. They are directly charged not to a final cost objective but rather to an intermediate cost objective or cost pool for later allocation. For example, if the case manager provides case management services to not only the youth participants but also to the adult and dislocated worker participants, that person's cost could be directly charged to a case management cost pool and then later allocated out to the three different funding streams using an appropriate allocation bases.

Modified total direct cost, also known as MTDC. Modified total direct cost is the distribution base used for a de minimis indirect cost rate and may also be used as a distribution base for other approved indirect cost rates. So what makes up a modified total direct cost? It includes all salaries, wages, and fringe benefits, materials, supplies, and services and travel and subawards up to the first $25,000 of each subaward. What does not – what is not included in a modified total direct cost base? What is not included is equipment, capital expenditures, rental cost, tuition, and participant support costs.

Also we would like to alert you that the technical corrections that were published by OMB had removed the term subcontracts in the definition of modified total direct cost. It now only includes portions of each subaward in excess of $25,000. Note that voucher payments or other forms of payments that are not governed by a grant or subcontract, that are not included – these costs are not included in a modified total direct cost.

One such example would be an ITA to a training institution. An organization does not need federal approval or approval of the pass-through entity in order to use a de minimis rate to charge indirect cost to federal funded grants, but both the pass-through entity or the federal agency will have to be notified of the non-federal entity's intent to do so.

Indirect costs, otherwise also known as facilities and administrative costs. Indirect or facilities and administrative costs is defined at 2 CFR 200.56 in the definition and acronym section of the uniform guidance. Indirect costs are incurred for a common or joint purpose benefitting more than one cost objective and not readily assignable to cost objectives specifically benefitted without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect cost to the cost objectives served, it may be necessary to establish more than one indirect cost pool.

So now, let's break down what is indirect costs between facilities and administration. The uniform guidance at 200.414 uses new terminology to distinguish among the different types of indirect cost, facilities and administration. For major institutions of higher education and major non-profit organizations, indirect costs must be classified within these two broad categories separately as facilities and separate as administration.

And what is included as facilities? That would include depreciation on buildings, equipment, and capital improvements, interest on debt with certain buildings, equipment, and capital improvements, operations, and maintenance. And administration is the general administration such as director's offices or such as the director's office, the accounting department, the personnel department, procurement, and other related expenses. And the uniform guidance defines major as any non-profit who receives more than $10 million or more in federal funds, and the same thing is true for institutions of higher education.

So what are some examples of indirect costs? Indirect costs are most often but not exclusively administrative type cost, and they can be incurred to support multiple programs but are not readily identifiable as specific program cost. They may originate either with the recipient organization or department or in another department that supports the overall operation of the organization.

Indirect costs are charged back to the program through an approved and direct cost rate. In the example on this slide, the cost of the executive director and the accountant cannot be charged to a particular cost objective because their work benefits the entire organization and it would be difficult in most situations to charge costs to charge their costs directly to a specific activity or function.

So in both examples the case manager, as an – or in both examples, the case manager is easily identifiable to a particular project, program, or grant. However, the executive director, because it serves the operations in whole, may have to put their – the director's salary in a pool.

Now, on to de minimis rate. This is something completely brand new and is contained in the uniform guidance. Additional information on the de minimis rate can be found at 2 CFR 200.414 item F. Now, what is meant by de minimis and direct cost rate, and who can use this method of charging indirect cost to a federal grant. De minimis is a Latin term meaning at minimal rate.

It is a simplified method of charging minimal amounts of indirect cost to federally funded grants without having to obtain an approved indirect cost rate agreement from the federal government or the pass-through entity. The uniform guidance explains that the de minimis rate is applicable only to certain individuals or agencies.

In order to receive or use the de minimis rate, the following must be true. One, you may never have ever have received a negotiated indirect cost rate. You must be an organization that receives less than $35 million in direct funding, and you also plan on charging indirect cost to your program. Additional information on the de minimis rate as well as the other rates that are applicable – or available to your organization can be found in the various appendices of the uniform guidance.

Other definitions, one definition that I'm happy to see in the uniform guidance is reasonable costs. A cost is reasonable if, in its nature and its 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.

Reasonableness of cost is a primary cost principle in determining the allowability of all types of costs, including when those are – those costs that are being allocated to various grants, programs, or activities. What is reasonable is guided by that prudent person principle. Let's take a minute to provide you with a real life example.

A grantee pays $10,000 to hire a motivational speaker to talk at its next board meeting. Is that a reasonable cost? Would a prudent person purchase the services of this same motivational speaker? In most situations the answer would be no.

Total costs are the allowable direct and allocable indirect costs less any applicable credits.

Now moving on, we will talk a little bit about cost allocation principles. We will talk about the standards that must be applied when costs are allocated. How you allocate cost must be consistent with the cost principles contained in the uniform guidance, the governing statutes, and regulations. The cost principles provide the litmus test that costs must pass in order for costs to be chargeable and allocable to that program.

Now, let's look at some of the cost principles and their applicability to cost allocation. Cost allocation, as defined, is in part – is assigning cost to cost objectives or activities in reasonable proportion. In order for a cost to be allowable, it must meet the standards of reasonableness, and in addition to that it also be – it also must meet the standard of necessary – as necessary to achieve a program objective or goal that – of that program and is it allocable?

In one simple example, if you're paying rent, paying rent is an allowable activity, but it also must be reasonable, allocable, and necessary. If a grantee, for instance, has a fully depreciated building but charges its grant fair market rent for the space the grant staff is occupying, is that rent an allowable and allocable charge to the program? The rent on the surface may meet the test of necessary, but charging of rent for a building that is owned and fully depreciated fails the test of reasonableness and allocable. Additionally, the uniform guidance no longer allows the charging of rent using use allowance.

Cost allocation methods must also be consistent with other cost principles. For costs to be allocable to a particular cost objective, it must receive consistent treatment compared with the other costs incurred for the same purposes and in like situations. In other words, a cost cannot be charged as indirect to one federal grant and treated as a direct cost in another grant.

A cost is allocable to a grant including a grant funded by the Department of Labor or other cost objective under these principles may not be shifted to other grants to overcome any funding deficiencies, avoid restrictions imposed by law or grant agreement, or for other reasons. Examples of cost shifting may include moving costs from one grant to another, from direct to indirect. However, there is an exception to this prohibition, which I will talk about in the next slide.

In the uniform guidance at 2 CFR 200.401 – or I'm sorry – 405 the uniform guidance states, however, this prohibition would not preclude the non-federal entity from shifting costs that are allowable under two or more federal awards in accordance with the existing federal statutes, regulations, and terms and conditions of the federal award. We realize that many agencies work with more than one program and work with multiple programs and grants.

Knowing this and to avoid entities from having to create overly complicated cost allocation systems, it sometimes may be easy to split those shared cost. If such cost are allocable among two or more programs, it would be easier to allocate those costs using a simple approach that reduces the time it takes to allocate costs. As said earlier, there is no single right method or preferred method for allocating cost. It may require that your agency to look at a few different methods before finding the right one that fits your organization.

Allocation principle. One thing that has not changed is proportionate benefit. The cardinal rule of cost allocation is that the cost benefits that – that if a cost benefits two or more projects or activities, that it must be proportionately shared or allocated without undue effort or cost.

Measuring benefit. As previously stated, costs are allocable to a particular cost objective based on relative benefit received. A method for measuring benefit is an integral part of the process of allocating cost to ensure adherence to cost principles that are required in your financial management system.

Measuring benefit is a critical requirement essential to the task of allocating cost. For direct cost to be assigned in its entirety to a particular activity or program it must have received the full benefit of that particular cost, goods, services, or activity.

For example, if an organization has staff that works solely on a DOL grant that provides such things as job development services to participants, the wages and fringe benefits of their staff may be directly assigned to that particular cost category in that grant. However, a cost that benefits more than one cost objective may be assigned based on benefit received.

Now, let's go on to administrative versus program cost. Administrative costs are defined in the WIOA statute and may slightly change and may be updated with upcoming publication of the WIOA final rule. ETA or Department of Labor has noted that grant recipients sometimes struggle to identify and report administrative costs and indirect costs properly. Errors in classifying and reporting these costs can often lead to disallowed cost.

In addition, we've had compliance findings that surfaced during monitoring reviews as well as reviewing the financial reports that grant recipients file on a quarterly basis. Some of the common problems we have seen are due to the number of costs that can be classified as either administrative or program cost. These are the costs which may be split between program and administrative and must be split based on benefit received.

Costs may be classified as either administrative – I'm sorry. Costs may be classified as either administrative or program, depending on the nature of the function or activity. If monitoring is related to the programmatic activities, it would be classified as a program cost. If the goods or services, such as rental of equipment, are required for administrative functions, then most likely those costs would be administrative in nature.

Travel is another type of cost that, depending on who's doing the travel, will determine whether that travel is deemed as an administrative cost or program cost. If it's travel related to case managers, in all likelihood that would be a program cost. If it's the cost of travel for the financial monitors who are going out and attesting to the compliance of its subrecipients, that may be an administrative cost.

Indirect versus administrative costs. Remember that nearly all ETA grants have administrative costs and administrative cost limitations, but they are not all – but not all indirect costs are necessarily administrative costs. For example, your indirect cost proposal should distinguish between which salaries in the indirect cost pool are program costs and which are administrative costs.

The approved indirect cost rate is applied separately to program and administrative costs. The resulting indirect program costs are charged to the grant as program costs. Likewise, the calculated indirect administrative costs are charged to the grant as administrative costs. And remember that the amount of indirect cost you can actually charge the grant may be limited by the amount that is contained in your grant agreement or in the program statute.

Now on to allocation bases. In this section we will review the standards for allowable allocation bases or the distribution bases in which you allocate costs. While costs are pooled instead of being directly assigned to a final cost objective, the ability to directly determine benefit for each item of cost is sometimes lost.

Instead, the pool contains a group of common costs that are allocated using some factor that provides an approximate benefit – or that provides an approximate measure of benefit. This approximate measure of benefit is called the allocation bases or distribution base. The base is incorporated into a mathematical formula that, when applied to the accumulated cost in the pool, results in the amount to be distributed or charged to each final cost objective or program.

A number of conditions are applied to the acceptability of using certain bases. These conditions are derived from the uniform guidance, governing statutes, and regulations. The criteria used to develop the allocation base should include the following standards. The base must bear a relationship to the types of costs being allocated.

There is, to some degree, a cause and an effect relationship between the base and the types of cost in the pool. For example, it would be inappropriate to use square footage as the base for allocating the salary and benefits of the staff receptionist since there is no correlation or no measure of benefit between space usage and personal expenses in this example.

A better base of allocation base would be one that measures how the benefit from that receptionist services is shared among partner programs, such as the number of participants served or the number of people walking into that One-Stop. The allocation bases should provide a fair basis of distributing cost. In other words, the bases must be based on relative benefit received.

An allocation basis should also make available the data that it uses, and it should be performed in a practical and an efficient manner so that the time and effort it takes to allocate cost is not so overwhelming and time consuming. It should be within the ability of the organization to control cost and the way – and the manner in which it allocates cost in a timely manner.

For example, if staff salaries are used as an allocation basis, than the ending of a grant or the startup of a grant may impact the use of that basis. The bases should be adjusted or – adjusted for variations or fluctuations in funding or activity at any given point in time throughout a fiscal year. If additional funding is received during that year, appropriate costs incurred under that funding must be included as a factor in allocating costs so that all programs receive its fair share of cost.

Now, what are some unacceptable allocation bases? In general an unacceptable allocation basis is one that does not meet the criteria we've discussed. It fails to meet the standards of allocability and the final results or distributions are distorted or there is not direct link or casual – causal relationship between the cost being allocated and the distribution base. Finally, allocations may not be based solely on plans, estimates, budgets, or future effort, as these bases do not meet the standards of actual effort or cost incurred.

One of the most common errors in cost allocation is the use of budgets or plans that are not later adjusted for actual cost. Other examples of unacceptable bases are those that use job descriptions, fixed available hours, planned expenditure levels, planned participant levels, or based on total funding or a portion of total funding. Planned activity may be used as an interim measure of benefit, but it must be adjusted once actual numbers are received.

So inputs. Inputs can be used as a distribution basis and are usually tied to a service, activity, or process. There are a number of common inputs that are used throughout our programs and used by our grantees. Some of them may be staff time, which would translate to direct staff hours or number of FTEs. Another input would be facilities cost, which would be driven by occupancy of square – occupancy of the staff – occupancy in which the staff takes at a particular office or location. So the distribution would be based on square footage that it occupies. Also based on the number of employees, so number of FTEs.

Some other additional inputs may be – accounting services can be based or driven by the number of transactions and processes for each funding source. The methodology required that the manner in which the input or resources are used are to be documented, and variations are to be reconciled or modified. For example, if square footage is used as the method to distribute space costs, then the use of the facility and any other changes through the moving of offices or rearranging staff commitments to that particular office must be documented and adjusted in that allocation formula.

Now, we're very familiar with the various input bases for allocating costs, but there are still opportunities to use outputs as a basis to allocate costs. Output-based allocation is a process of distributing pooled costs back to the final cost objective or activity using measurable work products or outputs. This is similar to what the private industry calls activity-based costing or ABC.

Some commonly used output bases are work units, number of people served, results achieved, or a percent of expenditures. We mentioned earlier that input bases or input distribution bases measures benefits and allocates benefits based on the cost incurred. Output bases, however, are used to allocate cost at the end of the process or the period in time when the output is measured and can be identified.

So what are some examples of output bases? You have centralized intakes that can be driven by the number of participants being served. Job placements, the driver or distribution base could be the number of placements made. Administration could be used using a percentage of direct expenditures. Case management, similar to centralized intake, can be based on number of participants enrolled or the number of participants seen that particular week or month. For services prior to enrollment it could be the number of customers walking in that door.

The next three slides contain suggested bases for allocation that hopefully many of you have seen before and, if not, are listed in the three slides. I won't go through all of them, in the interest of time, but it gives you an indication of what types of services are costs that can be pooled in the left-hand column and what distribution base that can be used to allocate the cost in the second column.

OK. So now, moving on to indirect cost and allocation bases. The most commonly used basis for distributing indirect costs are based on direct salaries, direct salaries plus direct fringe benefits, total direct cost, modified total direct cost. Under – unlike direct cost allocation for which various types of costs are distributed based on different bases, indirect costs are charged to the various funding streams based on an approved rate.

So I'd just like to take a few minutes at this time – it's been close to an hour, and I haven't stopped talking – to take a quick temperature of the room to see if we hopefully answered a few of these questions. We're going to do a quick status check.

So the first couple questions is, why is it necessary to allocate costs? This is one question that we frequently receive from the office, whether it's the grants office or if it's Victor's office or the regional offices. So why is it necessary to allocate costs? Sometimes a cost cannot be directly tied to a particular program or activity, but it does provide some benefit. So in these situations it's important to come up with a logical way to allocate cost.

The second question that we often receive is, can I avoid the entire process of allocating costs? Can I simply charge all of my costs to my grant? In certain situations you can direct charge all of your costs, and in those situations it would be for agencies that have one single funding stream. Otherwise, if you are a multi-funded system or you have multiple grants and are operating multiple programs, you will most likely be required to perform some kind of allocation in order to charge indirect cost to your programs or activities.

OK. So moving on, I just have a few more slides, and then I'll hand it over to Victor so he could answer some questions. Let's move on to the next part of the webinar, and that is on the documentation requirements for distributing salaries and fringe benefits. If you are not familiar with the changes in the uniform guidance, I will talk briefly about what has changed since the implementation of this guidance on the way you track and monitor staff salaries and time.

The standards for documenting personnel services are found in the cost principles of the uniform guidance. They can be found in 2 CFR 200.420 as well as in the section titled personnel compensation at 200.430. Some of these documentation standards have not changed compared with past standards, but there are some very significant changes. The general standards that apply to the payroll distribution system is that it must be based on records that accurately reflect the work performed.

That does not sound any different from prior standards, but it does. Then the very next statement in the uniform guidance states that payroll records must be supported by a system of internal controls that provide reasonable assurance that the charges are accurate, allowable, and properly allocated. This does not represent any change in the intended result, which is to distribute payroll expenses in such a way that the charges are accurate, allowable, and properly allocated. But what has changed is how you support those methods through your payroll distribution.

Notice that there is no mention of activity reports, such as time and attendance records, as required document – as required – as a required document to support payroll distribution. Activity reports still can be used and in some case may be the best method available for you and when documenting your payroll distribution, but the new guidance states that, if you have a strong internal control system in place that provides support for documenting the payroll distribution of your staff's time, you may not need time and attendance records.

Additionally, it provides additional flexibilities in the way you handle your payroll and time and attendance records for staff that are working on federal projects. It also requires you to consider the use of technology, and as long as the end result is achieved in which the payroll charges are accurate, allowable, and properly allocated, it may make sense to move in this direction.

The changes are significant in terms of most of the time staff salaries or time and effort is one of the key or most common drivers for allocating costs. The changes are less of an impact on educational institutions because under the old guidance at A-122, these were the principles that had been applied all along.

Payroll distribution, just to continue on just a little bit, the uniform guidance states that payroll distribution records must, as always, be incorporated into the official records and must reasonably reflect the employee's total activity, not included – not include time that an employee is not compensated and it must not show more than 100 percent of their time.

Additionally, payroll records must include all work being performed by that employee, whether it's from a federal project or grant or a state-funded grant or other activities. These standards for documentation of payroll distribution are no different than before, but we just note – we just wanted to note there's some additional flexibility in the way you track those things.

Some additional changes with the payroll distribution, for standards – for systems which meet these payroll allocation standards, you are not required to provide additional support or documentation for the effort of actually – for the effort actually performed. There's one exception that applies to non-exempt employees only.

For these employees' salaries and wages of non-exempt employees must be supported by records indicating the total number of hours worked each day, and those records are maintained in conformity with the requirements of FLSA, the Fair Labor Standards Act. This provision is not so much a payroll distribution standard as an FLSA requirement relating to the payment of overtime and usually applies to hourly employees rather than salaried employees.

This provision is the same as it was in A-122. However, there was no similar provision in A-87 and A-21. If the recipient's payroll records do not meet these standards, the federal government – or the uniform guidance gives the federal government the sanctioning authority to require recipients to maintain personnel activity reports or, in other words, time sheets.

So we have the last slides on allocation and distribution basis. So if you just take a few minutes, there is a list of expenses along with the basis, and if you just take a couple minutes to think about what would be the basis you would use to charge us case manager salaries, job developer's travel, employer services costs, the cost of operating a copier machine or conference room. So in these examples, for case manager salaries and job developer travel, most likely people would use any of the bases outlined in item A, B, or C as well as E. So E would be number of units, which would be an output.

For employer services cost, they can – most – or people would most likely use the distribution base found in item A, B, C, and E. As for the cost of the joint copier machine and conference room, in us – in most situations all of the bases identified below could possibly be used, but again, there would have to be a logical or cause and effect relationship between the use of – or between the distribution base and that expense.

So the last status check is, can I allocate costs using a distribution base that is not based on salaries and – salaries or staff time and effort? As I had indicated throughout the presentation, there are a variety of different ways in which you can allocate cost. You can use inputs as well as outputs so that the single most common driver, staff time and effort, does not need to be used to allocate certain types of cost.

So over the last hour or so we had some key concepts. I discussed what the difference between a direct and indirect cost are, what are the requirements under the WIOA act as it relates to administrative cost and infrastructure funding agreement, and then also talked about how indirect costs play a part in the charging of program costs and administrative costs. I also briefly talked about the new feature under the uniform guidance called the de minimis rate.

I talked about the different distribution bases that can be used to allocate various pooled costs as long as those costs are allocated that accounts for proportional benefits received. It may be a logical and allowable methodology or basis. And finally, I talked about caps – or earlier I had talked about cost allocation plans and indirect cost rates.

So before I hand it over or turn it over to Victor to answer some questions, I had indicated in the invitation as well as at the start of the webinar that there are some new changes coming with the new 9130 form. A PRA package was published on December 28th, 2015 that included our new 9130 form that identifies 14 new forms and many new data fields. The link to the PRA package – or the Paper Reduction Act package – can be found in the resource section on your screen.

The proposed new form will include changes necessary to meet the requirements of program statutes such as WIOA and the uniform guidance. As you manage other grants outside of ETA, you may be familiar with the SF-425 form which already contains a section on indirect cost. To be in – aligned with that form, ETA has included a new section on indirect cost, and what we are proposing is that any entity that has an approved indirect cost rate is to record the information tied to that approved indirect cost rate in this new field. And this would be only required during the submission of the final 9130 report, and it does not apply to state agencies that are working with SWCAP or statewide cost allocation plans.

If you want to actually see all the new data elements and all the new forms, you could go to that link that is available on your screen under resources where you will find a list of the changes along with a chart that covers each of the 14 forms.

OK. So at this time I'd like to turn it over to Victor to answer some questions that may have come in, and I'll take a breather at this time. So, Victor, if you would like, would you like to take over and answer some questions?

VICTOR LOPEZ: I'm sure you want me to.

MS. GALLOWAY: Thank you.

MR. LOPEZ: I'm sure you want me to. And, Debbie, thank you for doing the cost allocation presentation. I think you did an excellent job. It's a lot of material, and hopefully the folks in the webinar are going to get a lot of good value out of this presentation.

There were a few questions during the presentation that were raised, and there are about 20 questions altogether. There was a question – (inaudible) – related to, do you have to negotiate the de minimis rate, or can you just apply for it? My understanding is that you can just apply for it when you apply for the grant in the solicitation of the grant award. So again, you can apply for it as part of the solicitation of the grant award.

What is considered subaward? That was another question, and 2 CFR Part 200.92, subaward means an award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of the federal award received by the pass-through entity. It doesn't include payments to a contractor or payments to an individual that is beneficiary of a federal program. A subaward may be provided through any form or legal agreement, including an agreement that the pass-through entity considers a contract.

There was another question related to rental costs are excluded from entity [inaudible]. Does this include any kind of rental costs from facilities to equipment? When applying for the de minimis, yes. Any – the way that the regulation states, the definition of entity rental cost, that is direct rental cost would be excluded from the base when applying the 10 percent de minimis on it.

There was a question related to what will be, for example, examples of personnel staff. And there will be any – that will be direct and indirect folks that are part of the organization's entity, direct salaries and associated fringe benefits for – from those individuals.

MR. KEATING: And, Victor, there's a request to talk a little bit slower.

MR. LOPEZ: Not a problem. "Going back a few minutes, can you elaborate on the allowability of an entity charging a direct rate to participant costs?" Per the regulation 2 CFR Part 200, if the allocation base is modified total direct cost, looking at that definition, participant costs are not part of the allocation base. So therefore, you wouldn't be able to apply the indirect cost rate to those participant costs.

I'm sorry, but I'm going through the questions here to see if I can answer them right away.

MS. GALLOWAY: OK. Victor, I'd like to just chime in on that one about the participant support cost. There is – for everybody's clarification, in the uniform guidance there is a new definition called participant support cost, and we did – we have received a lot of inquiries regarding that because on the surface when you read it, it appears that some of those costs include things that would be otherwise allowable under our program.

Because we are held to the standards of the uniform guidance, anything that meets that definition of a participant support cost, it cannot be included in the modified total direct cost bases. And I'm looking for the actual definition citation here. Let me see where it's at. So that would be under 200.75, which is the definition section of the uniform guidance, and that's where you'll find the definition for participant support cost. So that's what Victor means when he's talking about participant cost.

So, Victor, I'll turn it back to you.

MR. LOPEZ: Well, yes. Touching that, those costs are allowable direct costs, the participant support costs. The question is whether or not you can apply the 10 percent, for example, de minimis on those costs. So that would be – the answer would be no.

I mean, there are other questions in the – in here, Debbie, but I think we could answer them jointly and perhaps answer those as part of the Q and A's after the meeting.

MS. GALLOWAY: OK. I could answer a few.

MR. LOPEZ: OK. Go ahead.

MS. GALLOWAY: So let's see the one question that came in. "You gave an example of an executive director being responsible for multiple programs and charging their time to an indirect cost pool. Makes sense. My question is could the executive director charge some of their time to a specific program?"

I don't – this may be a situation when the executive director has to step in when a program manager's out unexpectedly. We understand that those situations actually do happen. If there's a situation in which the executive director is filling in as a program director, if there's sufficient documentation to show that all the time that that individual is working on directly benefits that program, in those limited situations they could charge their time to that program rather than putting those – that portion of his or her salary in an indirect cost pool.

Another question that came in is, "Where would I find the written definition of admin versus program, and is it in the WIOA law?" The definition for administrative cost is found in the Workforce Innovation Opportunity Act under section 3 of the act itself, and that is the definition section. So it would be item 1, and in there it clearly states what is classified as administration.

Just looking through some of these. Let's see.

MR. LOPEZ: Debbie, there's other questions that would – I mean, just triggers other – I cannot give a really complete answer without asking for more questions – more details.

MS. GALLOWAY: OK. OK. I'm just scrolling through all these. OK. So for some of the additional questions that came in, as Victor had indicated, we will need some time to delve into some of our files and dig deep in the uniform guidance to provide you an adequate answer.

So as I had stated at the start of the webinar, Victor had indicated that he would post all of the questions or the majority of the questions on his website, and that can be found in the resource box in the middle of your screen. So let's see if there's any other questions that have come in in the last few minutes maybe we can answer.

MR. LOPEZ: I mean, and there's question 22. "If you're a subrecipient of a federal award and already have an indirect cost rate, can you still apply for a new indirect cost rate?" Well, if the indirect cost rate was approved at this level, at the federal level, and you receive a new grant, that rate would need to be revisited during – when they submit another proposal.

Again, if, for example, there's a provisional rate approved for this fiscal year '16, you got a new grant in 2016, based on actual cost, they will need to submit a proposal to get a final rate inclusive of – in the allocation base inclusive of any grant – new grants that they received during the fiscal year so the rate can be adjusted, touching on some of the things that you indicated during the presentation, provisional to final.

MS. GALLOWAY: OK. Thank you, Victor. Do you see item number 24? The question is, "As a subrecipient I know we have to use the grantor's rate but wanted to know if we could still apply for a new rate." I don't –

MR. LOPEZ: They – if they – they will get it if – I'm sorry. Go ahead, Debbie.

MS. GALLOWAY: I don't know who posed that question, but if you could just clarify. Do you mean the pass-through's rate that you're using or a rate that was given to you by the grant officer because the rates that are contained in your grant agreement, you'll see in the special terms and condition section that the grant officer will give you a temporary 90-day rate with the expectation that you will seek out an approved rate? So that rate does not – is not applicable for – applicable to your grant for the full duration of that period of performance.

MR. LOPEZ: It says subrecipient. I'm assuming when they say grantor would be the pass-through entity. So, I mean, they could apply for a new rate, if they get a direct federal grant. But we would need to – the – whoever asked, we would need to ask more questions on it to make sure that we're responsive.

MS. GALLOWAY: OK. All right. OK. We had one question that came on the 9130 form. "When will we start to use the new 9130 form?" At this point in time the comment period for the PRA package, which is the Paperwork Reduction Act package that was submitted and published in the Federal Register at the end of the calendar year, the comment period has closed.

However, OMB still has an opportunity to review our package, and we have not received their comments or their response yet. And so once we do there's an expectation that we will have the e-reporting system that grantees use up and running, and so that, depending on when we receive it, we would like to begin using the new report starting the quarter ending June 30th.

However, I would just like to add a disclaimer there. If we do not receive a response from OMB to achieve that date, it may be postponed for another quarter or so. But before that actually happens, we will notify the system through the issuance of a TEGL – a Training Employment Guidance Letter – outlining the steps and the deadlines for use of the new 9130 form.

OK. So, Victor, do you see any other questions you would like to answer? OK. So we have about five minutes left in this 90-minute webinar. Before we end, in light of today, February 12th and the birthdate of our 16th president, Abraham Lincoln, who was born 207 years ago, I'd like to end the webinar with a quote from him. "In the end it's not the years in your life that count. It's the life in your years."

So with that being said, we thank you for joining us these last 90 minutes. Please tune back next week when Victor Lopez will host the second webinar titled indirect cost overview, and that will be held Friday, February 19th at 2:00 p.m. Eastern Standard Time. Have a great holiday weekend, everyone, and thank you.

MR. KEATING: All right.

(END)