**WorkforceGPS**

**SMART 3.0 Training: Cost Allocation and Indirect Cost**

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GRACE MCCALL: Welcome to Cost Allocation and Indirect Cost, Smart 3.0 Training. So without further ado, I'd like to introduce you to our speakers for today, Debbie Strama, fiscal policy unit supervisor, United States Department of Labor, OGM DPRR, Chicago, Illinois, and Charlie Watts, accountant, DFMAS, United States Department of Labor region four, Dallas, Texas. Take it away, Charlie.

CHARLIE WATTS: Thank you, Grace. We'll start off with what is SMART 3.0, the training strategies. It's strategies, monitoring, accountability, risk mitigation and transparency. I believe that everybody's probably seen this quite a few times now.

Throughout the SMART modules, you'll see this icon, the grant management toolbox with direct links to the tools being discussed. SMART Training 3.0 is one of the several tools in the grants management toolbox created to help FPOs and grantees manage grants. Also available are the 2018 core monitoring guide, the ETA grantee handbook, the soon-to-be-published tags and WorkforceGPS resources such as sample MOU infrastructure toolkit and there are also other resources for your specific grants.

Today's SMART Training and other additional trainings will be made available on the grants application and management community located on WorkforceGPS. Be sure to access all available tools on managing your grant.

Today's module objectives are understanding the module objectives are understanding Uniform Guidance requirements and definitions, finding cost allocation methods and direct cost terms and identify who needs the rate, understanding cost allocation principles, understanding how to apply indirect cost rates and the allocation of direct and direct shared costs and understanding de minimis rate.

Uniform guidance requirements and definitions. As we progress through this module, it helps you if you understand that the Uniform Guidance specifically defines direct cost and indirect cost and above direct and indirect cost may include both program and administrative costs which are defined in WIOA. We'll detail direct and indirect costs over the next few slides.

What are direct costs? They are those costs that can be easily identified with a particular cost objective. Examples are costs that are specific to a single program, salaries for a case manager who only works with your grant or participants, the square footage of space occupied by program staff, supplies used by the case manager and program staff.

What are indirect costs? Indirect costs are not readily identifiable, those costs incurred for joint purposes benefiting more than one cost objective. Some examples of indirect costs are administrative salaries like salaries like salaries of accounting staff or administrative staff that support the accounting functions. In some instances, the executive director salary, administrative space and operational expenses, staff working on multiple programs and unable to direct charge.

The guide to an indirect cost rate, you divide the indirect cost by the direct cost. Not a complicated formula. The indirect costs of an entity are pooled over a period of time, typically a year, and then divided by a base of direct costs, commonly direct salaries and fringe benefits, to determine the indirect cost rate that will be used by the entity for the coming year. Sounds really simple in practice, but it takes a lot more than that, but that is the simple formula.

All right. We're going to do an example here. In our example, we're going to say that the monthly rent and utilities are all indirect costs. Method one on the slide has us divide the total monthly rent and utilities by the number of grants to come up with a monthly expense per grant.

However, we all know that won't work because the Uniform Guidance requires us to charge the grants based on benefits received, not the number of funding sources or budgets. Method two has us in the first step total the direct salaries of our three grants, then divide – (inaudible) – 24.09 percent. In step two, we multiply each grant's direct salaries by the direct cost rate to come up with each grant's palpable indirect expenses.

All right. Since everyone here might not have an approved indirect cost rate to use, let's discuss another simple allocation methodology. In our example, we're going to say that the receptionary (sic) costs are all indirect costs. Again, we have the unacceptable method on the slide which has us divide the total reception area costs by the number to grants to come up with a monthly expense per grant.

We know that won't work because it's not based on benefits received. So one acceptable methodology and there are many has us in the first step add the total number of participants for the three grants and then divide the individual grant participants by the total number of participants, giving us a percentage of the total number of participants for each grant. In step two, we multiply the direct, indirect cost total by each grant's percentage of participants to come up with each grant's palpable indirect expenses.

All right. It's time for a test. Please answer the question so we can move on. Looks like everybody has pretty much got it. So the answer is A and D.

Now we're going to talk about cost allocations. Cost allocation is defined as the process used to distribute costs to a final cost objective based on the concept of benefits received. Some costs are directly charged to one cost objective, some costs are shared between multiple objectives and some costs are indirect costs distributed to the final cost objective by pools and means of appropriate allocation bases. (Palpability ?) is a measure of the extent to which cost benefits its cost objective, such as a particular ETA grant program or cost category.

Let's take a few moments and talk about each of these three types of costs. It is important that you understand each of these types of costs and how the various allowable costs you charge to your ETA grant must be appropriately distributed to the final cost objective based on benefit received.

A cost is allocable to a particular federal award or other cost objective if the goods or services involved are chargeable or assignable to that federal award or cost objective in accordance with relative benefits received. This standard is met if the cost is incurred specifically for the federal award, benefits both the federal award and other work of the non-federal entity and can be distributed in proportions that may be approximated using reasonable methods. It is necessary to the operation of non-federal entity and assignable, in part, to the federal award in accordance with Uniform Guidance cost principles.

We previously discussed the cost allocations assign a cost or a group of costs to one or more cost objectives. Consequently, we'll discuss exactly what those cost objectives are. Cost objectives is a program, function, activity, award, organizational subdivision, contract or work unit for which cost data are desired. It may be a major function, a particular service or a product, a federal award or an indirect cost activity. A cost objective is an activity for which separate cost measurement is performed and is usually expressed as an accounting system code that identifies cost in a general ledger.

An intermediate cost objective is used to accumulate indirect or service-center costs that are subsequently allocated to one or more indirect cost pools or final cost objectives. It could be a cost pool or a cost center established in an accounting system for accumulation of costs assigned to similar categories or organizational units, functions, items of expense. An example of an intermediate cost objective would be a facility's cost pool where all costs for rent, utilities, etc. would be pooled and then distributed the number of final cost objectives for reporting purposes.

Final cost objectives has costs allocated to both direct and indirect costs. It's final accumulation point in the form of award, internal project or other direct activity. Final cost objectives include specific funding sources, cost categories, grants, program activities, projects, contracts and/or other activities. An ETA grant is an example of a final cost objective.

Cost objective is defined as an activity for which separate cost measurement is performed. When a cost cannot be readily charged to a final cost objective, then it must be accumulated with other wide costs into a pool or a staging area called an intermediate cost objective. These costs must be periodically allocated to the final cost objectives using an appropriate allocation methodology. For our ETA grants, it periodically means no less frequently than quarterly. So it's a required accrued expenditure for all costs incurred from the beginning of the grant may be reported on the ETA 9130.

In order to comply with the Uniform Guidance, ETA grantees must maintain adequate accounting systems and internal procedures to ensure proper cost classification and accurate reporting for all grant costs incurred. This of course includes both direct and indirect costs.

As we've already discussed, most direct costs can be readily identified with a final cost objective. However, indirect ensured costs most often require appropriate allocation through the utilization of intermediate cost objectives before the benefits received by the final cost objective can be determined. Intermediate cost objectives must, can be a cost pool center or area established for the accumulation of cost assigned in such similar categories as organizational units, functions, objectives or items of expense.

The final cost objectives include funding sources cost categories, grants, program activities, projects, contracts or other activities. Final cost objectives for ETA funding grants are the funding source and required cost categories that will roll up into your ETA 9130. These are the final resting places for costs. No other adjustment or transfer of cost should be done after the cost reached the final cost objectives.

For instance, the monthly bill from the local larger company is posted into the general utilities pool. All the costs for the month you're in, accounting goes in and moves the total utility cost from the general utilities pool and now it gives portions to each benefiting program cost. The final resting area for the portion of these electric costs will reside within, there's with the fund source in program or project.

Intermediate cost objectives are in effect cost pools. The first rule for allocating costs is to charge costs directly to a cost objective whenever possible. Most organizations, there are costs that can be directly charged to a cost objective without the need for further allocation, but we also recognize that many activities that an organization performs actually benefit several programs, accounts or other objectives. This makes the assignment of cost more complex and triggers the need for pooling the costs before allocating those costs, final cost objectives.

If they're not readily chargeable to a final cost objective are often aggregated into cost pools, which are immediate cost objectives and are periodically allocated or distributed to a final cost objective using an appropriate allocation methodology. Cost pools can be established for any type of cost or grouping of similar cost, such costs being assigned to an intermediate cost objective represented by the cost pool. All pooled costs must ultimately allocate to the final cost objectives in proportion to relative benefits received.

All costs are limited to shared, direct and indirect costs and only actual, not budgeted costs may be pulled and chart the various funding titles. The cost, the added costs that make up the pool must be scrutinized to make sure that all costs are allowable under the ETA grant.

Fundraising activities are not allowable and therefore must be isolated from the cost pool before the allowable costs in the cost pool are allocated to cost objectives. Budgeted pool costs are sometimes used in indirect cost proposals for establishing provisional rates. However, these provisional rates are subject to change based on final rate proposals and actual costs incurred.

Cost pools may be used for all classifications of costs including administrative costs and program costs and indirect costs, which was also addressed in the sessions.

All right. Costs are allowable to a particular cost objective to the extent of relative benefit provided to that cost objective. Costs that do not benefit to a particular cost objective are not allocable to and thus cannot be charged to that cost objective.

The method for measuring benefit is an integral part of the process for allocating costs to ensure adherence to the cost principles that are required of the financial management system. Measuring benefit is a critical requirement and central task to meeting performed and allocated costs. For direct cost to be assigned and its entirety to a particular cost objective, the cost objective must receive the full benefit for the goods, services, activities or effort that make up that cost.

For an example, if an organization has staff that work only on ETA grants providing job development services to participants, the wage and fringe benefit costs for that staff are directly assignable to the program cost activity for the ETA grant. The cost may benefit more than one cost objective so that any single cost objective receives only partial benefit from the cost incurred.

Thus, the relevant benefit provided to each cost objective must be measured. For example, if the job development staff in the above example also perform duties related to administrative functions at the same time, the cost would benefit more than one cost category, administrative and program and therefore be prorated among the benefiting cost categories.

All right. Let's talk for a moment about the specific standards and principles contained in all the federal requirements and regulations that we just referred to and which impact heavily on cost allocability and cost allocation. These basic principles must be applied to all costs charged to your ETA grant.

First of all, to the extent possible and supportable by documentation, you should direct charge cost to your grant. Directly charging a cost means that you are able to assign a cost in its entirety to a particular cost objective that receives full benefit from the goods, services or efforts that make up the cost. This is a very simple process, but you must maintain documentation supporting full benefit of the cost to the receiving cost objective.

All costs must receive consistent treatment in your official books of accounts and the treatment must be consistent over time. In addition, treatment must be consistent, what would be charged to your non-grant funds for the same product or services. For example, if a cost is treated as a direct cost to a final cost objective in WIOA in one quarter and the same cost for the same purpose may not be assigned to a cost pool and allocated to a final cost objective in a subsequent quarter.

Measuring benefit is a critical requirement and the central task of the cost allocation process. In order for a cost to be allowable, a benefit must be received by the specific program being charged. Costs must be charged only to the extent that the program receives the benefit. Often the extent of that benefit is not readily identified and the program or particular reporting category receives only a partial benefit. It is these costs that are subject to cost allocation.

All right. This training module is going to provide you with details of three methods of allocating cost. One is the cost allocation plan. Cost allocation plans are used to allocate direct shares and direct costs and they're identified, direct costs that are those directly benefiting a program 100 percent which can be easily allocated to cost objectives based on benefits received. Allocating indirect costs based on a cap cost allocation plan is generally limited to state and local governments and Indian tribal governments.

Negotiated indirect cost rates are used to allocate indirect costs, so administrative costs for institution and higher education. They're frequently referred to as overhead costs. These are identified as costs that are, benefit all cost objectives but are not easily assigned to those cost objectives.

Another way to recover indirect cost is to use the de minimis rate in lieu of approved negotiated indirect cost rate if the organization has indirect costs and otherwise qualifies.

Shifting of costs. Any cost allocable to a particular federal award under the principles provided for in this part may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by federal statutes, regulations or terms and conditions of the federal award or for other reason. This prohibition will not preclude the grant recipient from shifting costs that are allowable under two or more federal awards in accordance with existing federal statutes, regulations or the terms and conditions of the Federal awards.

Classification of costs is indirect costs in the Uniform Guidance at 200.56. Indirect costs are incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted without effort disproportionate to the results achieved.

To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs. Indirect cost pools must be distributed to benefit a cost objective on bases that will produce an equitable result in consideration of relative benefits received.

The Uniform Guidance at 200.414 uses terminology to distinguish among the different types of indirect costs that are facilities and administrative costs. Facilities are a depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, operations and maintenance expenses. Administration is the general administration and general expenses such as the director’s office, accounting, personnel, procurement and other related expenses.

You should pay special attention to indirect costs during your grant closeout. These costs are included in section 13 of the ETA 9130. Unrecovered indirect costs may be included but only with the prior approval of the DOL grant officer. Additionally, if there are changes to your indirect cost rate after or during the grant closeout, you need to submit an amended closeout package. Administrative costs are identified by WIOA statutes.

ETA has noted that grant recipients sometimes struggle to identify and report administrative and related indirect costs properly. Errors in classifying or reporting these costs can very often lead to disallowed costs. In addition, we have had compliance findings that surface during monitoring reviews as well as in ETA's review and acceptance of the financial status of the 9130.

Some of the common problems we have seen are due to the number of costs that can be classified as either administrative or program costs and of the function performed and who was performing that function. There are also costs which must be split between program and administrative based on the benefits received by cost category.

Costs may be classified as either administrative of program depending on the nature of the function or activity. If the monitoring is related to the programmatic functions, it is classified as a program cost. If the goods and services such as rental or purchase of equipment or maintenance of office space are required for administrative functions, then the associated costs are administrative. Space devoted to classrooms for participant training are program costs.

All right. Administrative costs are identified in WIOA statutes. All right? Now time for your next test, your knowledge check. Please answer the question as best to your ability. And it looks like everybody's getting it. Looks like we're in pretty good shape here. Debbie, it's time for you.

DEBBIE STRAMA: Hi. Thank you, Charlie. Just to recap some of the important things that Charlie has said over the last half hour are, one is when you are deciding whether or not to direct charge a grant or to allocate costs, the first question you should be asking yourself is is it possible to do a direct charge? When you direct charge, you avoid the process of pooling costs and allocating costs.

So if at any given time you can directly tie a benefit to the activity or service being rendered and you have a system in place that can directly charge that expense, then we would suggest that you do that rather than going through the process of cross-allocation because we know at times cost allocation can become your life or it can take up and consume many hours of a given week. And so, if you discover that this is one of the reasons why you would want to seek out an indirect cost rate and put it in an indirect cost rate proposal to the appropriate cost negotiator.

A couple other things that Charlie had pointed how were he did the difference between administrative costs and indirect. So as part of our handouts in today's webinar we provided two desk aids. And one desk aid is the administrative definition that was under the old program, the Workforce Investment Act and the new definition for administrative costs under the Workforce Innovation and Opportunity Act.

And so, there you will see a slight change between the two definitions and those changes are highlighted in yellow. And then the second handout that we provided that is also available on our WorkforceGPS website is a breakout between the different, the differences between administrative cost and program cost.

And so, if you have received a federal program or if you have received a federal grant from the Department of Labor that is funded through WIOA, you can use this desk aid to help you distinguish when a cost should be considered admin and when it should be considered program.

And why is it important to distinguish the difference between the two? The reason is this. It's because many of our programs have an administrative cost limitation on admin costs so it wavers from anywhere from five percent to 15 percent.

And so, you have to keep that in mind and you have to be aware of your spending towards that limitation because at any given time, you do not want to exceed that limitation because 100 percent of the time we will not be providing you additional funds to cover those additional expenses.

So whatever the award has been given to you on and whatever the cost limitation has been or whatever the cost limitation is specified in your grant agreement on the program is the limitation that you have to live with.

So before I go into more detail about the cost allocation plans and the indirect cost rates, I just wanted to highlight something that was very important that we wanted to stress at least a few times throughout this webinar is there is your 9130s that the rest of grant recipients must complete on a quarterly basis.

This had a section in there now on indirect cost. And so, if you go to doleta.gov/grants and you, I think you can find it under sources and information, you will find copies of the 9130s along with the instructions and also the training employment and guidance letter that talks about this section of the 9130.

So when do you have to submit your indirect cost information when you file a 9130? When you have to submit it, it's only when you submit a final 9130 and it's for all agencies that have or are using an indirect cost rate. So this is if you're using a de minimis rate or any negotiated indirect cost rate.

One question a lot of people have asked us is well, on the state agency and I have a wide cast for a state-wide cost allocation plan and a negotiated indirect cost rate agreement, so does that mean I do not have to complete this section?

Well, because you have an approved indirect cost rate, it does require you to complete the indirect cost section of that particular 9130 report when you're submitting the final report for that particular grant or project. So even in those situations when you have one, both a CAP and a rate, you will have to submit the information tied to the rate when you submit your final 9130 report.

OK. Let's think of some of the questions that have come in. If you are new to the federal awarding or federal grants awarding system or this is the first time you've received a grant or this is the first time you've heard about indirect cost rates and heard about indirect and what do you have to do in order to effectively manage this grant?

Well, if you are a grant recipient that has received a competitive grant award, there is a section in you grant agreement that identifies or asks or it requires you to complete that section and it's on indirect costs.

And so, we give you an opportunity to apply and to charge the grant indirect costs. And so, you can charge our program on a temporary basis and that's contained in the language in the grant agreement on the condition that you move forward in seeking out and submitting the appropriate paperwork to obtain an official indirect cost rate.

And so, your indirect cost rate would come from the time in your agency that is applicable to your agency. So if the majority of the funding that you receive from a federal agency comes from the Department of Labor, then you would go to our division of cost determination to obtain that rate.

But if the majority of your monies comes from another federal agency, in all likelihood that federal agency would be the cognizant agency for indirect cost. And so, there is a difference between agencies for other purposes than indirect cost.

So bottom line, you can temporarily charge us indirect cost, but by the time a grant has been closed or is getting ready to close, you should have already submitted the paperwork and received an approval for an indirect cost rate. And so, that will be part of the closeout process is to provide that paperwork to prove to us that you now have an approved indirect cost rate.

OK. So moving on, I'll be talking about the cost allocation plans, the indirect cost rates including the de minimis rate, and then I'll also talk about some common mistakes that we see when we go out and do site visits.

And so, as part of our oversight responsibilities, we have federal project officers and federal staff across the nation that go out and conduct a program compliance review or financial compliance review. And so, it's part of their testing and their examination of records is to look behind what has been charged to our grant as it relates to indirect costs.

And so, in those situations we would expect that you would have all the supporting documentation to prove that the methodology in which your allocating cost is found is it reasonable? Does it equate to relative benefits received? Again, all the different programs that across the board in your agency.

OK. So let's move on with our cost allocation plan. So there is one of two ways in which you could allocate indirect costs. One way is of course through your cost allocation plan and the other way is through a negotiated approved indirect cost rate. And so, the combination of collecting a cost allocation plan and a whole bunch of other documents is submitting a cost or indirect cost rate proposal that would include a cost allocation plan but all of those documents then get reviewed by a cost negotiator and then a rate is obtained.

And so, with a rate you can use the rate until it you can use the rate for a duration of time. So there are expiration dates on those rates, and so at the end or close to that expiration date, you should be moving forward to seeking out a new rate. And so, there is parts of the cost allocation plan that are part of getting an indirect cost rate approved.

So cost allocation plan. So cost allocation plan identifies all of the costs that are going to be shared among the different programs, projects that your agency is managing. And so, the cost allocation plan should identify all the different pools that a certain amount or certain cost will be put into. And then it should also describe the methodology and the distribution basis that will be used to then allocate those costs, either on an intermediate basis and on a final basis.

So what are the minimum requirements for a cost allocation plan? One of course is we expect it to be in writing. And so, if you have someone who's been involved a long, long time ago in your agency who you took the time to create a cost allocation plan and they are no longer around, we would expect that you have looked at that old document and use it to recreate or build a new cost allocation plan.

So the cost allocation plan needs to be a living, breathing document because there are some assumptions being made when you develop that cost allocation plan as to what distribution basis will be sued, what kind of methodologies will be used and sometimes they don't pan out because you may direct or the way you do business may change or the focus and attention of your services may change to a different audience or a different set of participants. And so then, in that regard you may have to alter or change you methodology to reflect the actual activity.

One other thing with cost allocation plan, so not only does it need to be in writing it needs to be of course current, but it needs to be supported by external county records. So we need to see when we go out onsite that there are possible cost pools in your general ledger that then eventually get allocated out. And so that's those records can be supported by additional Excel worksheets or any additional software that you may use to allocate costs.

So with the cost allocation plan, we want to make sure that the people that are responsible for signing on the dotted line when they receive a grant agreement or a grant award is that they are fully aware of how costs are being allocated. And so that any time there is an adjustment to the methodology or to the distribution basis, that they're fully aware of that change or the redirection of time in an effort being moved to a different funding stream or a different methodology.

And of course we would expect that all of the indirect costs that are allocated are driven by actual benefit received and actual costs incurred. So you know, for planning purposes you could start out with one to two real estimates but in reality once actual activity is is taking place and actual costs are being incurred, you need to shore up the difference between what was originally thought and proposed to the actual activity.

So with that being said the next item is making sure that we have your cost allocation plan has a method or a process to do periodic reconciliations and adjustments because the best laid plans may not actually come true. You may find yourself in an area that has been recovering from like a major disaster.

And so, in those situations you may have to redirect all of your staff time and all of your support to serving dislocated workers out in the community or the unemployed. And so, that will definitely impact the way you allocate cost for the time and what you spend in working in in recovery mode while taking care of the individuals in the community during that disaster.

Another thing that is required is periodically validation and updating. And so, there always needs to me some kind of looking back at what is proposed to what is actually being done.

And sometimes too you may find that the process is overly cumbersome or it takes too much time so you may need to look back and go back to the drawing board to figure out a way that may be easier or is more efficient for people that are located in field offices or in different offices.

And then lastly of course when you have this grant plan we would expect that everyone is following their written plan. And so, it doesn’t serve anybody any good if that cost allocation plan is locked up and the executive director's office and is kept by the accounting manager and the folks that are allocating their time.

You know, whether or not they're charging their time or splitting their time between programs or they're allowing other one-stop partners to come into their office or other agencies to come into their office so now they're sharing space. That is the way you share and share that space and share in the cost makes sense for everybody because bottom line, we want to make sure that any federal project that is receiving a share of indirect costs receives only their reasonable amount that includes to relative benefit received.

OK. Some additional things that need to be part of a cost allocation plan is, and these are all things that you would have to submit if you're seeking out a rate and an approved indirect cost rate. So a few of the things would be is what is your industry mission statement, what is your do you have an organizational chart? You know, if you recently went through a restructuring does that organizational chart that is part of the CAP reflect the change in direction of your business?

Also, any cost allocation plan must include the types of services that you're going to be providing. You know, are you going to be providing direct program services to clients? Are you serving those services out to community partners? Your offer may conclude financial statements and current budgets. It's so important to make sure that you have an approved budget whether it's a fiscal year, a calendar year, a program year.

And then also explaining what costs are actually being shared. If you have people coming in and out of your office or only occupying space only once or twice a month or just part time the way that those costs are being shared between your agency and that partner needs to be described in the cost allocation plan.

Allocation basis, the way you allocate cost may be different for the different pools that you have. And so, if you have a telecommunications pool, you're not going to use FTEs – well, it may not make good sense to use FTEs to allocate the cost of telecommunications. There may be another phase that just seems more logical and that can be direct expenditures or even the number of computing that is assigned to each person and things like that.

And so, you can't necessarily have to allocate each pool on the same basis of so you can have a bit of variety. You can allocate based on direct expenditures. You can allocate based on direct salaries and fringe benefits or some other basis that makes sense to the types of costs that are in the pool. So there needs to be a direct correlation between the way you allocate and the types of costs in that pool.

And last, of course we want to make sure that any cost allocation plan and any allocation of cost that is being conducted by the finance office or your accounting team is certified by an authorized official. Again, we want to make sure that the person who is agreeing to the terms and conditions of this grant is fully aware of how indirect costs are being applied to that particular project or grant.

OK. So what are the standards for distributing indirect costs? We want to make sure that it's based on actual benefits received, that it makes sense across the board and it's consistent over time. We also want to make sure that it doesn't distort the picture or it does not unfairly benefit one program versus another so that everybody is on equal footing in terms of their share of allocated expenses.

One other thing is of course we would like to see is there is a time management tool. We hope that you do not have any one person on your staff that their only job is allocating costs because that is not the intent of having a cost allocation plan.

OK. Let's keep going. Unacceptable bases. And so, these are things that are not allowed based on the Uniform Guidance at 2 CFR 200 and then you cannot use budgets or grant awards or funding to drive the way you allocate costs.

So if you discover towards the end of a program year that you have to use or you have a big surplus of youth money and then all of a sudden you're going to redirect all your allocations to that it gets in or an increased portion of indirect cost goes to that youth pile, that is not an acceptable way of allocating costs.

Some things are worth using budgets or estimates. It's great to use those in the very beginning for planning purposes, but as time goes on and as you begin or you are conducting program services and things like that, you need to do a reconciliation so that any allocation requests actual costs incurred and actual services being served.

Some of the other things is pretty obvious. You know, they're all tied around plans and projections and estimates. And so, all of these things again have to tie out to actual direct expenditures, actual participants and actual times and hours being served on that particular program or project.

OK. So commonly, many people use inputs as a basis to allocate costs. So they can use the number of employees or STEs. They can use number of transactions, number of direct labor hours, a percentage of the square footage that that particular participant or project occupies and then also using time. So if you have a time distribution system that your staff maintains and they're allocating and charging and documenting the time being spent on a particular service or a project or a grant, then that can be the driver for allocating costs.

Something new is using outputs as the base of allocating costs. And this is more like an activity-based accounting and this is where some people and some one-stops are using when they're sharing costs among one-stop partners, especially with one-stop operating costs or infrastructure costs is using some form of output.

And so, if you know the number of people walking into the door, the number of people being enrolled into a program, the number of people being serviced in a given month.

Again, if that's something that you are considering and this is a brand new way of allocating costs, again you want to make sure that you have some kind of reconciliation process so that if you decide to use this route or use this type of methodology, that there is some type of examination looking back at that process to see if it actually reflects relative benefits received.

OK. So if you're doing accounting or fiscal types of costs, those are traditionally considered overhead expenses. There's a few ways in which you could allocate those costs here with budgeting and auditing. You can spread out the cost of an audit based on direct expenditures or direct dollars being spent on the program.

So say your WIOA program, you spend, you know $5 million in a given year and then for all the other programs you spent $1 million. And so, in that regard, if the bulk of your activity was tied to the WIOA program, the bulk of the auditing expenses would be allocated to that program.

So there is just a few other examples on this part on the slide. Intake. So there needs to be some type of common intake at your agency or if you are an agency that works with multiple programs or projects that serve a single population, you have WIOA youth monies and you have a YouthBuild grant, how are you then going to allocate the cost of the YouthBuild. So you can use intake as a way to distribute payroll services and equipment services and again, it's making sure that the people that are responsible for intake tracking their time against the programs or functions that then will be used to allocate those costs.

OK. So now we have another knowledge check. So which of the following are acceptable allocation rates? Hopefully everyone has been listening. Which of the following is an acceptable allocation rate? Right. So the correct answer is B, actual effort or cost. The other choices are all planned or projected things that can be used but can be used for planning purposes. They really cannot be used for allocation purposes.

OK. So let's move on to indirect cost rates. So we have a variety of different indirect cost rates out there and so we don't want to confuse you with all the different rates that are available to an agency. But we can give the highlights to you that seem to be used by many of our grant recipients.

And so, the one that right now is not fairly new because it was introduced when the Uniform Guidance was implemented about four and a half years ago is this thing called a de minimis rate. So we'll go, so I'll talk a little bit about that. I'll talk about the difference between the temporary rate which is also a provisional rate and final rate and some other rates.

OK. So let's begin. So with indirect cost rates, this again is we want to make sure that some of the same standards that we discussed with cost allocation plans are also being applied when you're seeking out an indirect cost rate. And so, we want to make sure that any cost that is shared on the funding streams and between programs, whether they are federal programs or non-federal programs, that it was flexed and the relative benefits received, that all of those costs that are allocated are reasonable, allowable and necessary and bottom-line applicable.

Again, we know you would not need an indirect cost rate if you're an agency that can direct charge all cost. And so, in most situations this would happen is if you have one single program and so that you know that all the functions being performed by your agency support that one given program.

But we know in reality that many of you cannot live off of one single project or grant from us and so that you probably have already sought out or received funding from the state or other federal agencies or other federal grants. And so, the next situation, you may not know at any given time where or how to allocate some of your overhead or some of those indirect. And so, in those situations, this is where you may need to give it a cost allocation plan or an indirect cost rate.

OK. So what are the types of bases that are commonly used on an indirect cost rate? And so, if you have received an indirect cost rate or you’ve heard from people in your office that you have an indirect cost rate, I would ask those people for a copy of that indirect cost rate and that proposal because at least from the Department of Labor perspective, our cost negotiators provide you with a formal approval that comes in the form of a letter that will identify the beginning and ending days of that indirect cost rate. It will also identify the basis in which you apply the rate.

And so, one of the biggest problems we find when we go out onsite and we look behind the indirect costs that are charged to our program is that the person who is doing the allocation and the charging of the cost in preparing those reports may have never seen the indirect cost rates proposal or that agreement and so they're making assumptions on how to allocate costs.

And so, without that agreement they mean that to be allocating costs you may be on an incorrect distribution basis or they may be using a rate that is no longer in effect. And so, there are expiration dates on those indirect cost rates.

And so, one of the common ways in which the rates are applied. As you can see here with the four squares, not one of these squares says rates can be applied to total grant expenditures. That is one big problem that we see with our grantees that they just say oh the FPO told us our rate is 18 percent of 18 percent. And so they automatically charge 18 percent again total direct, total grant expenditures and that is incorrect.

Normally the portion of cost that are being used to apply that rate is much smaller than total grant expenditures. So it may be a subset of those grant expenditures and that may include direct salaries, direct salaries and fringe benefits, modified total direct costs which we'll talk about a little bit or total direct cost. So it's never again the total bottom line of a particular grant or project if you apply that rate.

OK. So here's an example that's pretty obvious here. So here the indirect cost rate at first blush you see this indirect cost rate as 33 percent and you think oh my goodness, how can we support ourselves and how can we operate this grant if there's a 33 percent indirect cost rate and we only have an admin rate of 10 percent. Again, we, you have to look at how this rate is applied.

You look at the rate. You look at the documentation that is attached to the rate and then you discover that the rate is again the base, which is direct salaries and fringe benefits. So the bottom line for this particular grant is that grant can actually have total grant expenditures. They are $2.6 million dollars, but the portion of direct salaries and fringe benefits is only $500,000. So the share of indirect cost for this particular project or grant is only $165,000.

OK. So approved rate applies to all grants. So we often get a question coming in and passed around is we're working with a new service provider. We're working with a new agency that has an approved indirect cost rate from HHS.

Can we use that rate or must they seek out their own rate from the Department of Labor or do we have to negotiate a rate? If they have an approved indirect cost rate from a federal agency, yes you can accept that rate and they can apply that rate to your grant. And so the theme is true when that agency applies for a grant with the Department of Labor, we would honor that rate and that can be included as part of their grant application.

Now one of the other questions that often comes in is I am a state agency and I work with a lot of local offices. And so I get a direct grant from Department of Labor and I act as a pass-through when I award monies out to local areas and I have some local areas that want to use an indirect cost rate or a cost allocation plan. Is it my responsibility to approve that rate or cost allocation?

If in fact that local area does not have a federally-approved indirect cost rate or a federally-approved cost allocation plan and they want to use or they want to charge your subaward indirect cost, then you as the pass-through entity have to approve that cost allocation plan or that indirect cost rate in order for them to charge indirect cost to that particular subaward or subcontract.

So with all the rates, you, any indirect cost again has to do with in the approved budget. It has to adhere to any cost limitations. So for the most part, indirect costs are costs that would be considered admin.

If in fact you think that a portion of your indirect costs could in fact be program, you would have, the burden of proof would be on you and your cost negotiators to show what portion of that rate is considered admin versus program. It is not our responsibility to determine that, but without that information then the result is that the indirect cost rate would have any costs charged and incurred related to indirect cost would go against that administrative cost pool.

OK. Cognizant federal agency. This is an agency that is responsible for approving an indirect cost rate or a cost allocation plan. Here you have a couple links. The bottom link is where you find information on our division of cost determination and this is where our cost negotiators are housed at.

We have seven I think cost negotiators across the country that are responsible for approving cost allocation plans and indirect cost rates for department of Labor grants, so you can go to that website. They also have a great YouthBuild guide for state and local governments that provides them with sample worksheets and checklists and other documents that are needed when they're submitting an indirect cost rate proposal.

The other think is HHS. And so, if you were working with an agency that has or if you're a state agency and you have an approved indirect cost rate HHS, HHS actually publicly publishes their approved rates on their website and wo you could find the state-wide rates for the state of New York, the state of Illinois, the state of Montana off of that link. And so that rate is at psc.gov.

OK. So I'm kind of running out of time so I'm going to try to speed it up just a little bit and talk briefly about de minimis rates. So the de minimis rate is something that was introduced when the Uniform Guidance was implemented in 2014.

And so, the de minimis rate is 10 percent of your modified total direct costs. So who can apply and request a de minimis rate? So any agency who has never received an approved indirect cost rate and that they spent and that they are government entity that has less than $35 million in federal funds.

And so, how do you go about requesting that rate? And so, if you are sneaking out and you submitted a grant application with the employment and training administration and you were notified that you won that award, it's true the grant applicant or the grant, well once your grant application is approved and a grant agreement is being negotiated, there's a section in your grant agreement that you can clearly check off that you are requesting a de minimis rate.

And so, there is some additional language in there saying that you need to certify that you have never received these rates before and that you also a governmental entity that does not receive more than $35 million in federal funds.

Often contained in that grant agreement is the use of the temporary rate and we allow you to use that rate for 90 days on the condition that you are seeking out one of the accrued top cost allocation plans or an indirect cost rate.

So going back to the de minimis rate, so it's 10 percent of the modified total direct cost. And so, what is the modified total direct cost? It's the actual salaries, wages, fringe benefits, material supplies, services and travels and subawards up to the first $25,000 of each subaward. After that, you cannot include any other portion of that subaward when you apply that rate to those costs. And so, some of the exclusions are also listed on there.

OK. So here's a quick worksheet. It shows you how to apply the de minimis rates. And so, it's you have a bunch of the grant amounts, $9.7 million. From there in one given year, this particular agency spent $6.8 million. Out of that, the agency pulled out all of the costs that would fall into the modified total direct cost category and out of that is $1,695,000 so you would take 10 percent of that and you can charge that to our program.

OK. So common mistakes. Again, no unacceptable bases to allocate costs or you're using an outdated indirect cost rate agreement or you're using a rate that is not applicable to the division or the department in which you're operating the program. This is particularly true for community colleges or universities that have a variety of different departments out there.

So if you plan on using your rates, you want to make sure that the department that is managing and operating that federal Department of Labor grant falls within the parameters of an approved rate in order to charge it. If it isn't, then you would have to seek out your own proposal in your own way.

So one of the mistakes is, you know sometimes making the decision to direct charge costs and not putting that in the pool. And so, when there is changes or fluctuations in the pool in the direct amount or in the allocated amount, there needs to be an explanation as to why that adjustment took place and if there is not a reasonable explanation, then you know, we go by what's in the plan or in the rate. And in those situations, you may have to return those dollars because it's not supported by the approved indirect cost rate for that cost allocation plan.

OK. So we went over cost allocation and the whole process of allocating. You know, bottom line, if you can direct charge, go ahead and direct charge to avoid the headaches that are involved in allocating costs. We talked a little bit about what it means to have direct costs, the difference for what features are contained in each cost allocation plan and then also talked about the new provision under the Uniform Guidance called the de minimis rate.

OK. So we have about 13 minutes left. I think we received a few questions. Charlie, I don't know if you've had some time to go through those questions and if you'd feel comfortable in answering any of those questions. While you do that, I can take a look at the additional questions that have come in.

MR. WATTS: Well I can answer one for sure. The question is, "Would the number of funding streams be an acceptable basis?" And the answer is no. Number of funding streams, budget, none of those are acceptable bases for cost allocation.

MS. STRAMA: OK. So here's one question about are we ever required to take time sheets for cost assignments, that is of course to a cost allocation methodology for staff who work on multiple grants?

Again, the burden of proof is on your agency. Normally we would have to see how you're allocating those costs. So is there any other evidence to show the separation or the sharing of those costs among programs.

To simply say that 50 percent of the case manager A is going to work on WIOA programs and the other 50 percent they're going to work on an ex-offender grant or TANF grant needs to be supported by something. And so typically we would expect it would be timesheets, but the Uniform Guidance does provide additional options. And so again, we would need to see evidence of how it reflects actual time being spent on those programs.

Charlie, is there any other ones that you can answer or do you want me to just keep looking?

MR. WATTS: No. I don't think there's any other ones that I would want to answer right now.

MS. STRAMA: All right. So here's one question. So I am – wait. I can't try to reduce the size of the question, the font. I'm still confused. "Are non-profit organizations allowed to charge their indirect costs, to request a station or are only allowed for state and local tribal governments?"

So the way you read the Uniform Guidance, it implies that the only people that can use a cost allocation plan is state agencies or public assistance agencies. We have multiple training sessions with our best friends at the Division of Cost Determination and it is our understanding that they still would accept cost allocation plans. So from the Department of Labor's perspective, there are times when they would accept an approved cost allocation plan. Again, that is the department of labor's approach so that may be different than other federal agencies.

Let's see. OK. So here's a question around external regular audit costs. Typically audit costs should be included in your, in an indirect cost pool and then allocated out. And so, in fact, you could allocate that particular pool based on direct expenditures and then and in that situation name the programs in which you spent the most money in fact would receive a bigger portion of that cost.

But again, your cost allocation plan and your indirect cost rate would have to include a pool for audit expenses.

OK I think that's all the questions I see. I'll turn it over to Grace to wrap up.

MS. MCCALL: All right. Excellent. I'd like to thank all of our participants and presenters for today's webinar and if you could please stay logged into the room for just a minute longer.

(END)