

Cost Allocation

WIA Requirements

- ❖ One comprehensive center
 - ◆ Provides services for multiple programs
- ❖ Required partners
 - ◆ Legislative mandate to provide services
- ❖ MOU
 - ◆ Documentation on how services will be provided and costs allocated

Partner Requirements

- ❖ Make available core services applicable to their programs
- ❖ Entering into an MOU with the local board
- ❖ Participate in the operation of the one-stop system

Partner Requirements

(continued)

- ❖ Provide representation on the local board
- ❖ Use a portion of funds to pay their fair share of
 - ◆ The creation of the one-stop system
 - ◆ The maintenance of the one-stop system
 - ◆ Providing applicable core services

One Stop Center Costs

- ❖ Direct costs
 - ◆ Benefit one program (or grant)
- ❖ Common direct costs
 - ◆ That benefit more than one program (or grant)
 - ◆ That can be readily allocated to the benefiting program (or grant)
- ❖ Indirect (shared) costs
 - ◆ Incurred for common purposes
 - ◆ That benefit more than one program (or grant)
 - ◆ Are not readily assignable to the various benefiting programs

Determine Common Costs

or: *“What is it that we are paying for?”*

- ❖ Identify the partners
- ❖ Determine direct costs
- ❖ Determine common costs
 - ◆ Costs that benefit more than one program

Typical Common Costs

- ❖ Typical common costs to be addressed by cost allocation
 - ◆ Space / occupancy
 - ◆ Utilities
 - ◆ Telephone systems
 - ◆ Common supplies
 - ◆ Common equipment
 - ◆ Resource center
 - ◆ Receptionist
 - ◆ Common intake

Cost Allocation

- ❖ Direct charge whenever possible
- ❖ Only shared & allowable costs are allocated
- ❖ Establish cost pools & bases to distribute costs
 - ◆ Controllable?
 - ◆ Direct relationship between cost & base

Cost Allocation

- ❖ Cost Pooling by Expenditure type
 - ◆ General & Administrative (G&A) Pool
 - ◆ Non-Allocable G&A Pool
 - ◆ Telecommunications Pool
- ❖ Appropriate base reflects activity
 - ◆ General & Administrative (G&A) Pool
 - ◆ **Base** – Direct program expenditures
 - ◆ Non-Allocable G&A Pool
 - ◆ **Base** – None. Can not be charged to federal programs and must be paid using non-federal sources

Cost Allocation

- ❖ Unacceptable Allocation Bases:
 - ◆ Funds available or budgets
 - ◆ Job descriptions
 - ◆ Pre-determined staff hours
 - ◆ Planned participant levels
 - ◆ Prior period results for future periods

Cost Allocation

or: *“How do we divide up the common costs?”*

- ❖ Partners pay their fair share that is attributable to the partner's program
- ❖ The costs must be allocated to those programs that benefit
- ❖ Allocating these costs must be based on the benefits received by the program
- ❖ The partners agree to a method to divide up the common costs

Method of allocating

- ❖ Allocation methods must
 - ◆ Result in an equitable distribution of costs
 - ◆ Must not result in any partner paying a disproportionate share of shared one-stop costs
 - ◆ Correspond to the types of costs being allocated
 - ◆ Be efficient
 - ◆ Be consistently applied over time

Basis for Allocating Costs

- ❖ **Big picture based**
 - ◆ All of the common costs of the one-stop
 - ◆ The partners pay their fair share of the total of all the common costs
- ❖ **Activity based**
 - ◆ The costs of a common activity, such as common intake
 - ◆ The partners pay their fair share of the activity
- ❖ **Item of cost based**
 - ◆ The cost of each item, such as rent
 - ◆ The partners pay their fair share of the item

Cost Allocation Methodology

- ❖ Cost allocation methodology must
 - ◆ Be consistent with GAAP
 - ◆ Be consistent with
 - ◆ Applicable OMB Cost Principles
 - ◆ Applicable administrative requirements
 - ◆ Be accepted by each partner's auditors
 - ◆ Supported by actual cost data

Cost allocation MUST NOT

- ❖ Cost allocation MUST NOT
 - ◆ Shift costs to a program
 - ◆ That are not allocable to that program
 - ◆ Do not benefit that program

Resource Sharing

or: *“How will each partner pay for the amount they owe?”*

- ❖ Partners pay for their share of the common costs based on
 - ◆ Benefit received
 - ◆ Resources that the partner has available
 - ◆ The partner's
 - ◆ Law
 - ◆ Regulations
 - ◆ Other directives

Reconciliation

or: *“Were our estimates on target?”*

- ❖ Compare actual to budgeted fair share
- ❖ Make adjustments
- ❖ Ensure that each program contribution equals benefit received
- ❖ Make sure that the costs are allowable

Key Challenge

- ❖ What is the best basis for the equitable distribution of shared costs without incurring any unnecessary additional burden?