Workforce Investment Act

Cost Allocation and Resource Sharing for a One-Stop Delivery System

SUBJECT: Cost Allocation and Resource Sharing for a One-Stop Delivery System

REFERENCE: Section 121 and 134, 20 CFR: 662.230, 662.250, 662.270, 662.280, 662.300, Federal Register/Vol. 66, No. 105/Thursday, May 31, 2001.

BACKGROUND: This policy provides a general framework that all One-Stop centers and their partner programs will be able to use to establish their own system for cost allocation and resource sharing. The agreements reached by One-Stop partners in local Workforce Investment Areas may be utilized by auditors as additional criteria for audit and resolution purposes. Cost allocation is a concept that is embedded in the Cost Principles Circulars issued by the Office of Management and Budget and one which is based on the premise that Federal programs are to bear an equitable proportion of shared costs based on the benefit received by each program. In contrast, resource sharing is the methodology through which One-Stop partner programs pay for, or fund, their equitable share of the costs.

POLICY: Under the Workforce Investment Act (WIA), the local One-Stop center is not a direct recipient of Federal awards. Rather, it is the location through which several workforce development and education programs operate their programs in partnership with other entities and make their services available to the program beneficiaries. Each local workforce investment area is required to establish a One-Stop system for the delivery of certain Federal workforce development services. The system must include at least one comprehensive physical center that provides core services and access to the other activities carried out by the partners. These One-Stop center partners are recipients of Federal grant dollars, either directly or from another recipient. The requirements of each partner's authorizing legislation continue to apply under the One-Stop system. The resources of each partner may only be used to provide services that are authorized and provided under the partner's program to individuals who are eligible under the program. In their normal course of business, they maintain appropriate accounting and other information in accordance with appropriate Federal guidance. This normally includes accounting for indirect costs, through indirect cost rates or cost allocation plans, as well as for direct costs. All costs must be accounted for in accordance with Generally Accepted Accounting Principles (GAAP). For the direct funded organizations, this includes negotiating the necessary indirect cost rate or obtaining approval of their cost allocation plan.

The underlying problem for the One-Stop partners is to find an appropriate way of accumulating cost information and assuring appropriate payment for shared costs as they come together in a single location. When individual organizations partner in the One-Stop environment, some activities or functions are performed which benefit more than one individual organization, e.g., a common reception area, provision of information on the services available at the One-Stop, or collection of basic information from individuals seeking assistance at the One-Stop. When this occurs, the cost of performing these functions must be allocated to the benefiting programs or cost objectives (grant). This must be done based on benefits received by the benefiting program, and not on availability of funds. When that distribution is accomplished, the individual partners must include these costs in their total cost picture to determine the total cost of operation to perform the functions for which they were funded. Allocating shared costs to the benefiting activities (grants/programs) does not necessarily relate to the methodology used for payment. [Payment of costs will be discussed later in this policy.] Allocating "One-Stop" costs is no different from allocating costs incurred by grantees for their individual grant programs. The "One-Stop" costs have effectively been pooled.

While the physical One-Stop center itself is not required to have a Federally approved negotiated indirect cost rate or cost allocation plan, this does not mean that there is no need for cost allocation. The Workforce Investment Act requires that a portion of the funds provided under the various Federal laws authorizing the required partner programs be used to pay for the creation and maintenance of the One-Stop delivery system and the provision of core services that are applicable to the individual partner programs. Participation in the operation of the One-Stop system is to be in a manner consistent with the terms of the Memorandum of Understanding and the partner's authorizing law.

It is necessary for the cost allocation to relate to the common costs of the One-Stop system, which may include such items as space and occupancy costs, utilities, telephone systems, common supplies and equipment, a common resource center or library, perhaps a common receptionist or centralized intake and eligibility determination staff. These common costs will vary depending on the design of the One-Stop system. This policy does not propose to impose a single methodology on the entire One-Stop system. However, the cost allocation methodology that is used must:

- Be consistent with Generally Accepted Accounting Principles (GAAP)
- Be consistent with the applicable OMB cost principles and administrative requirements, and
- Be accepted by each partner's independent auditors to satisfy the audit testing required under the Single Audit Act and OMB Circular A-133.

Whatever methodology is used, it must be supported by actual cost data. It is important to remember that the methodology must not permit the shifting of costs that are not allocable to or do not benefit a specific program to that program. In this regard, the books of account for each partner program must reflect both the actual shared costs for which the program is paying and the resources used to pay for these costs.

Options

In the local One-Stop, the idea of sharing resources and allocating costs can be viewed:

- In the aggregate, i.e., covering all of the One-Stop center's shared costs;
- On an activity basis where all of the partners pay their allocable share of the total costs of an activity or function (e.g., a common intake and eligibility determination system); or
- On an item of cost basis where all programs pay their allocable share of each item of cost (e.g., rent).

It could also be some combination of the above, e.g., when a particular or a number of functions are treated on an activity basis and the remaining items of cost are treated on an aggregate or individual item of cost basis.

Workforce Investment Act Regulations

The WIA regulations require that each partner must contribute a "fair share" of operating costs of the One-Stop delivery system proportionate to the use of the system by individuals attributable to the partner's program. This requirement is intended to establish an equitable principle, but it is not intended to prescribe a single method for allocating costs. Each local area is allowed significant flexibility in determining the method, consistent with the relevant OMB circulars, that may be used for allocating costs among the partners. Any methodology used must:

- Result in an equitable distribution of costs and not result in any partner paying a disproportionate share of the shared One-Stop costs;
- Correspond to the types of costs being allocated;
- Be efficient to use; and
- Be consistently applied over time.

The methodology used may vary dependent upon the nature of the One-Stop structure. Any grant-specific cost and/or administrative constraints are still valid for the individual grantees.

Basic Types of One-Stop Systems

- Simple Co-location with Coordinated Delivery of Services

  Several partner agencies coordinate the delivery of their individual programs and share space. Each partner retains its own identity and controls its own resources. Each partner provides services in a coordinated manner with other funding sources while paying for its own fixed and variable costs as direct charges to its own funds. The partners pool only those costs that are shared jointly with the other agencies.

- Full Integration

  All partner programs are coordinated and administered under one management structure and accounting system. Full integration is the vision of future One-Stop systems. It may be accomplished in phases as the partner programs come to realize the cost savings and efficiencies of integrated services and activities. Under full integration, there is joint delivery of program services and the operation is customer focused. Since resources are combined, the corresponding costs are often collected into cost pools. Pooled costs are later allocated back to individual grant programs using an appropriate method of allocation.

- Electronic Data Sharing (through satellite offices)

  Only program information is provided and there are no co-located staff assigned.

The principles in this policy may be applied to all three types of structure. However, the focus of this policy is to address the most typical structure of co-located programs with shared space and some common functions or activities whether or not these functions or activities are fully integrated.

Allocation of One-Stop Shared Costs

- Cost Pooling

  This method may be used to distribute both shared direct costs and indirect cost. Cost pooling involves the accumulation of costs to pools for later allocation to final cost objectives. It is appropriate to use cost pooling when direct charging requires disproportionate effort in order to determine the amount that should be charged to the individual cost objectives. It may be used for any type of common costs, administrative or program, incurred in a One-Stop center.

- Line Item Expense Categories

  After One-Stop shared costs are identified, they may be accumulated by line-item expense categories (also referred to as "natural expense classifications" and "object expense categories"). Some examples of line-item expenses are salaries, occupancy costs, telephone, postage and shipping, printing and duplication, and supplies.

- Service Department Grouping

  Shared costs may be accumulated or grouped by service department such as data processing and management information (MIS), printing and duplicating, mailing and shipping, purchasing and procurement, payroll, personnel, and general legal services.

- Function or Activity Grouping

  Shared costs may be accumulated or grouped based on function or activity such as eligibility determination; outreach, intake and orientation; initial assessment; job search and placement assistance, and career counseling; and follow up services.

  Reminder: Whichever grouping or accumulation method used, it is the actual incurred costs that are accumulated.

Commonly Used Allocation Bases for Equitable Distribution

There needs to be an equitable distribution of accumulated costs to the benefiting cost objectives. The most commonly used allocation bases include:

- Direct-staff Salaries: Percentage of total salary costs of staff assigned to activities.
- Direct-staff Hours: Percentage of time spent by staff assigned to activities.
- Modified Total Direct Costs: Percentage of total direct costs for activities, less distorting items (e.g., equipment purchases, flow through funds, etc.)
- Total Direct Costs: Percentage of total direct costs for activities. (Normally inappropriate unless there are no distorting items. Refer to modified total direct costs above.)
- Units of Service: Percentage of units of service provided.
- Usage: Percentage of usage of space, equipment, or other assets by activities.

Allocations may be made on a single basis for all categories of costs or on multiple bases that vary by category. When reliable, using a single basis for allocating common costs can be less burdensome. Direct staff salaries is often appropriate when salaries alone represent about half of an entity's total costs and other categories of costs tend to vary according to staff salaries.

Cumulative cost pool allocations for the reporting period are often preferable to monthly allocations in achieving equitable sharing among grant funded activities because of various grant periods during the grantee fiscal year. Since all costs do not occur evenly on a monthly basis, monthly allocations can be misleading as to results. Regardless of the methodology used, allocations must be done no less frequently than the required financial reporting period.

Payment (Funding) for Allocated Share of One-Stop Costs

- Memorandum of Understanding (MOU)

  The One-Stop partners are required to enter into a written Memorandum of Understanding with the Local Board. [Refer to policy previously written identifying expected elements in this agreement.] In order for the MOU to describe how the costs of services and One-Stop operation will be paid for, the partners will first need to identify those costs and prepare a budget for the common/shared "One-Stop" activities.

- Budget Development

  This budget will not only describe the shared costs of the One-Stop system and/or One-Stop center in total, but will also include estimates of how much of the total shared cost of the "One-Stop" is allocable to each partner. The budget development process involves all of the One-Stop partners and the One-Stop operator. Remember that a budget is a plan, typically based on historical information, that estimates how the anticipated funding level will be spent on the expected costs of the programs.

- Budget Reconciliation

  On a periodic basis, no less frequently than quarterly, the actual shared costs and the allocation among the partner programs will need to be reviewed and compared with the planning levels that were included in the budget. Corrections or adjustments to the budget should be made on an ongoing basis to reflect actual levels. At that time, the budget document, including the allocable partner shares of the One-Stop shared costs, may need to be adjusted to conform to actual circumstances. The budget agreement should specify under what circumstances it may be modified as well as the modification procedures that should be followed. The partners may want to modify the agreement when there are significant changes in the level of services expected for each activity, changes in economic situations, poor performance by a service provider, changes in funding sources or funding levels, or any other factor that will materially affect the document. An adjustment to the budget will not necessarily require a modification of the MOU unless the terms of the MOU are affected.

- Agreement on Payment

  After the budget is prepared, all of the partners will then agree how each will pay its allocable fair share. Resources other than cash, sometimes referred to as "in-kind," may be used to meet certain costs. However, the contribution of partners may also consist of cash resources, or a mixture of cash and non-cash resources. For instance, one partner may furnish only personnel, another partner may furnish space and telecommunications, etc., or each partner may use its grant funds to pay for its allocable portion of shared costs. Under no circumstances may any partner program pay more than its total allocable share of total allowable costs. Further, no program may pay for costs that are not allowable under its governing statutes and regulations.

Services provided prior to determining eligibility for any given program(s) are allocable to the program(s) for which they are allowable. However, any program can pay for those services entirely, to the extent they are allowable, provided that the total payments from any given program do not exceed the total costs for various activities and services that were allocated to that program. Likewise, the salary costs of a shared receptionist may be borne by any given program where such costs are allowable, provided that the reimbursements or payments made by the program do not exceed, in total, the total organization-wide allocations made to that program.

Caution must be exercised in situations where the activity begins to serve a specific program purpose instead of being general service to the public or when only one program directly benefits. Once again, if a particular partner's program is not able to use and does not benefit from staff with a shared function, then it cannot and should not bear any share of the cost of such function.

When a staff function that is common to more than one but not necessarily all of the One-Stop partner programs, such as intake and eligibility determination, is included in the One-Stop shared costs, it may be more equitable for "payment" of the program share of the activity to be based on the notion of full time equivalent (FTE) staff position rather than on the aggregate total of staff salaries. Staff who perform the same function for the One-Stop operation will likely be on varying pay scales and pay levels. In order to establish the appropriate FTE contribution for each partner, it is first necessary to establish the proportionate share of each of the partner programs.

The proportionate share could be established based upon the number of individuals referred to the program compared with the total number of individuals served by the common function. Another methodology establishes the proportionate share of each program based on the number of data elements, included in a common intake and eligibility determination form, that are applicable to and used for the individual partner program.

This agreement about how the allocable shares of One-Stop shared costs are to be funded (paid for) must be included in the MOU that is to be followed during the operating period. As with cost allocation, the choices that the partner programs make about the methods of payment for the shared costs should be applied consistently over time. However, in some circumstances, the cost allocation and resource sharing methodologies, including the methodologies used to determine proportionate shares, may need to be modified if actual experience is either different from what the partners planned or demonstrates that the methods being used are resulting in inequitable distributions. As with budget modifications, it is often best to modify the methodologies as soon as possible after the need is recognized. Because such changes would constitute changes in methodologies which are a required element of the local MOU, it may also be necessary to modify the MOU when such a change is made.