Purpose:
To provide guidance with respect to established cost principles that regulate the proper distribution of funds for programs funded in whole or in part under Title I of WIOA.

Background:
The Office of Management and Budget (OMB) has streamlined the Federal government’s guidance on administrative requirements, cost principles, and audit requirements for Federal awards. These modifications are a key component of a larger Federal effort to more effectively focus Federal resources on improving performance and outcomes while ensuring the financial integrity of programs funded under Title I of the Workforce Innovation and Opportunity Act (WIOA). The reform of OMB guidance is set to improve the integrity of the financial management and operation of Federal programs and strengthen accountability for Federal dollars by improving policies that protect against waste, fraud, and abuse. Recipients and sub-recipients must establish and maintain effective internal controls, in relation to Workforce Connections awards, that provide reasonable assurance that awards are being managed in compliance with Federal statutes, regulations, State and local policies procedures, and the terms and conditions of the award.

Policy:
Pursuant to requirements set forth at Title 2 of the Code of Federal Regulations (CFR) for financial management systems, Workforce Connections (WC) and its sub-recipients must develop a cost distribution process for distributing all direct shared costs incurred in the operation of their programs. All cost distribution methodologies for direct shared costs must conform to Federal cost principles under 2 CFR Part 200 and 2900 respectively. Generally accepted accounting principles should serve as the basis for the Cost Distribution Plan (CDP).

Reference:
Public Law (P.L.) 113-128 WIOA Sec. 184; 2 CFR Part 200; 2900 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards; TEGL 15-14; State Compliance Policies SCP 3.6 and 3.7; One-Stop Comprehensive Financial Management Technical Assistance Guide Part II

WC Cost Distribution Requirements
A CDP shall be required to support the distribution of any shared direct award expenditures that benefit more than one program or cost category, and that the CDP must be submitted to the Department of Employment Training and Rehabilitation (DETR) for compliance review and approval by the end of the third quarter of each program year, or as required. All costs included in the plan shall be supported by accounting records that substantiate the propriety of charges. WC shall retain on file all documentation supporting the methodology utilized to determine cost distribution, and the methodology must reflect some measure of actual activity. Budget allocations or other estimates are not adequate documentation.

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**WC Sub-recipient Cost Distribution Requirements**

A CDP shall be required to support the distribution of any shared direct award expenditures that benefit more than one program or cost category, and that the CDP must be submitted to WC for compliance review and approval by the end of the first quarter of the award. All costs included in the plan shall be supported by accounting records that substantiate the propriety of charges. Sub-recipients shall retain on file all documentation supporting the methodology utilized to determine cost distribution, and the methodology must reflect some measure of actual activity. **Budget allocations or other estimates are not adequate documentation.**

I. **Cost Distribution**

   A. In General, allocability is one of the basic cost principles used in determining whether costs are allowable to Federal funded awards. Allocability is a measure of the extent to which a cost benefits the Federal grant in general and its cost objectives in particular.

   B. There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost incurred for the same purpose is treated consistently in like circumstances either as a direct or an indirect cost in order to avoid possible double-charging of Federal awards.

   C. Costs must be treated uniformly across program elements or from year to year. Costs that are indirect for some awards cannot be considered direct costs for another award. This means that a cost may not be charged to the award as direct cost if any other cost incurred for the same purpose, in like circumstances, has been charged to another award as an indirect cost. Any allowable cost allocable to a WIOA Title I formula award may not be charged to any other Federal award to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal award, or for other reasons.

   D. Applicable Distribution Terms:

   1. **The CDP** is the documentation which describes how allowable shared direct costs are identified, accumulated and distributed to the appropriate cost objectives. It can only be used to distribute shared direct costs. The CDP also identifies the allocation methods used for distributing the costs. A CDP must be developed and submitted to WC for review and approval by the end of the first quarter of the award, and must be supported by formal accounting records to substantiate the propriety of eventual charges.

   2. **Direct Cost**
   
   Direct costs may be specifically identified with and assigned to a final cost objective, such as an ETA cost category. Direct costs are charged directly to a final cost objective such as a cost category or the ETA-funded award and do not require any further allocation or breakdown by funding source or cost category. [e.g., the salary cost of a staff person performing case management duties only for WIOA Title I adult participants is directly assignable to the award cost category under the adult formula award. It is fully chargeable to the WIOA Title I adult program because the case manager is serving adult participants only].

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WC Fiscal Policies

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3. Shared Direct Costs
These costs are typically associated with more than one program and/or project and can be easily distributed across the appropriate cost objectives based on a methodology that is fair, equitable, reasonable, and based on some measure of actual activity or usage. [e.g., for a building used to provide services funded by different programs, the rent or depreciation should be split based on the square footage associated with the personnel assigned to the space being used].

E. In order to assure the distribution of costs to the benefiting cost objective/categories, a plan for the distribution of costs is required to support the distribution of any joint costs related to the award. There are five basic steps to properly distribute costs based on some measure of the benefits they provide:
1. Identify each of the shared goods and services that should be allocated;
2. Determine some method of distribution that will result in a cost approximately equal to the benefit to each program of the goods and services. Part of the decision on the allocation method will depend upon what practical documentation of the cost/benefit ratio can be developed;
3. Document these steps into a formal CDP detailing the shared direct costs distribution methods;
4. Implement the CDP and periodically repeat the necessary allocation calculations and charge them to the applicable programs.

F. Considerations for developing a CDP:
1. Make the organizational structure no more complicated than necessary to distribute costs.
2. Make sure the distribution process that is developed is replicable at any time.
3. Consider the required structure and capabilities of the organization’s accounting system in designing an operable cost distribution process.

G. Always Remember to:
1. Submit the CDP to WC for review and approval as required;
2. Read your organization’s CDP;
3. Verify that the CDP contains a correct list of costs to be distributed and methods used for distribution;
4. Verify if the methods of distributing costs conform to applicable regulations;
5. Verify that data is accurate;
6. Request approval from WC prior to any changes/updates to the CDP;
7. Comply with the CDP;
8. Assess costs in order to determine if they were properly distributed and in accordance to the CDP.

H. CDP Adjustments
Changes to the organization’s CDP that affect the retroactive distribution of costs to the benefiting cost objective will be allowable only with prior written approval by WC and only in cases where the change will result in a more equitable distribution of costs.
II. Cost Pool Management

A. Cost pools reduce some of the burden of tracking expenditures because they are vehicles for temporarily accumulating unassignable shared direct costs that later will be distributed to a particular program. As costs accrue, a formula based on the benefits received by each program dictates how these costs will be distributed and reported by program title/subtitle or cost category. This eliminates trying to assign all staff time and every expenditure by grant or title at the time it is incurred.

B. Cost Pools

Many types of costs pools are acceptable if established and managed properly in the organization's accounting system. Examples include:

1. Program cost pools;
2. Facilities expense pools; and
3. Other combinations of costs that are similar in nature and are shared among several cost objectives.

C. Consider the following when developing cost pools:

1. Written CDP. The cost pool should be described and documented in a written CDP that is used in distributing all allocable direct costs within each program to the appropriate program activity and cost category.

2. Personnel Services. Personnel services costs (salary and fringe benefits) of internal staff who spend a portion of their time in administrative and a portion of their time in allowable participant services functions can be individually distributed among the respective cost categories using staff time records or other approved and verifiable means. A supporting time record that prorates the time between two or more functions is required. Time records should include hours spent on each cost objective. A position description alone is insufficient documentation.

3. Non-personnel Services. Non-personnel service costs (costs such as supplies associated with staff usage) that benefit more than one cost objective can be distributed to more than one cost objective. Such distributions must be based on an appropriate distribution methodology.

Caution: Costs that may be pooled are limited to shared direct costs. Non-shared direct costs should not be pooled but rather should be directly charged to the benefiting cost objective. Only actual, not budgeted, costs may be pooled and distributed to the various funding titles.

Cost pooling is necessary because prior period distribution results are not allowed to be applied to future periods. In other words, ratios of participant enrollments or direct hours worked for the previous month are not allowable as a distribution base for the next month.

III. Distribution Bases

A. When costs are pooled instead of being directly assigned to a final cost objective, the ability to directly assign benefit for each item of cost is lost. Instead, the pool contains a group of common costs to be allocated by using an approximate measure of benefit. The approximate measure of benefit is the distribution base. A distribution base is the method of documentation used to measure the extent of benefits received when distributing joint costs among multiple cost objectives.
B. Many different types of bases can be used in distributing costs. The most appropriate base will vary with the circumstances prevailing in each instance. An organization is likely to use several different bases for distributing different types of costs. Acceptable methods for distributing pooled costs may vary by type of organization, functional units or levels within an organization, types of cost to be distributed and cost category. The basis used to allocate a particular type of cost should be used consistently over time and be described in the CDP.

C. Acceptable distribution bases:
A distribution base is acceptable if it represents a fair measure of cost generation or cost benefit and if it results in an equitable distribution of the costs of services rendered or goods provided. Each base should be considered on its own merits as to the purpose for using it and the degree of equity it will achieve in distributing joint costs. In selecting a method, the additional effort and expense required to achieve a greater degree of accuracy should be considered. General criteria that should be used in selecting a distribution base include the following:

1. **Minimal Distortion.** The base should distribute costs in a fair and equitable manner without distorting the results. This requires that the base be as causally related as possible to the types of costs being distributed so that benefit can be measured as accurately as possible.

2. **General Acceptability.** The base should be generally accepted and in conformance with GAAP. For example, it should be consistently applied over time. The base should also be drawn from the same period during which the costs to be distributed have been incurred.

3. **Represents Actual Cost or Effort Expended.** The base should be a measure of actual cost or actual effort expended. It should not be based solely on a plan, budget, job description, or other estimates of planned activity.

4. **Timely Management Control.** The base should be within management’s ability to control on a timely basis. The base should produce reliable and fairly predictable results. If the base is erratic and unpredictable, beyond management’s ability to control, or not timely, it is likely to produce unacceptable results.

5. **Consistency with Variations in Funding.** The base must be able to accommodate and withstand changes in funding during the year and from year to year. If the base includes factors that are affected by variations in funding, it will produce distorted results.

6. **Materiality of Costs Involved.** The time and expense spent in developing the base should not be greater than justified by the materiality of the costs to be distributed. In other words, the grantee should not spend more on obtaining the information needed to distribute pooled costs than the dollars in the pool warrant. The base should be sufficiently detailed to provide the most equitable and accurate distribution possible. At the same time, the base should be simple enough to be efficient while still attaining a fair distribution of costs.

7. **Practicality and Cost of Using the Base.** The base should be as efficient as possible in terms of the cost or effort in developing it. Thus, wherever possible, a data base that already exists in the financial or participant record keeping and reporting systems should be used rather than creating a separate data base to be used only for distributing costs.
IV. Recommended steps in the cost distribution process

1. Identify Costs
2. Pool Costs
3. Select Distribution
4. Apply Bases
5. Distribute Costs
6. Reconcile to Actual Costs
7. Modify Distribution Methods if Necessary