

**Department of Workforce Development
Division of Workforce Solutions**

Financial Policy

Applies to: Child Support Directors
County Department of Human Services Directors
County Department of Social Services Directors
Tribal Chairpersons
W-2 Agency Directors
Workforce Development Boards
All DWS Contract and Grant Agencies

Issue Date: 12/20/2004

Topic: Cost Allocation Bases

PURPOSE

This Financial Policy relates to the use of an acceptable base for the equitable distribution of allocated costs. Specifically it is designed to reduce distortions in the equitable distribution of costs resulting from the inclusion of items such as subcontracts and pass-through funds in the allocation base.

This policy supercedes all policies and program manuals relative to cost allocation bases issued previously by Division of Workforce solutions (DWS).

The effective date of this policy is for all cost allocations made after January 31, 2005, to grants and contracts from DWS

BACKGROUND AND POLICY RATIONALE

Cost Principles for indirect cost rates for DWS providers are set forth in OMB Circulars A-21 (Educational Institutions), A-87 (State, Local and Indian Tribal Governments) and A-122 (Private Agencies). Most of DWS's providers use cost allocation plans in lieu of indirect cost rates. However, the objective is the same. Namely, to distribute costs to one or more cost objectives in a reasonable and realistic proportion to the benefit provided.

In order to accomplish this objective, the total direct cost base must exclude any extraordinary or distorting expenditures. In fact, both A-87 and A-122 state that:

“The distribution base may be (1) total direct costs (excluding capital expenditures and other distorting items, such as pass through funds, major subcontracts, etc.), (2) direct salaries and wages, or (3) another base which results in an equitable distribution.”

The term “pass-through funds” includes client benefits paid by the state directly to the recipient. Examples of such payments include Child Care Subsidies and W-2 benefits. The term would not include any W-2 client benefits paid by the provider in the event that the state funding is insufficient. It also would exclude Job Access Loans as the provider must manage and collect them.

The exclusion of distorting items from the total direct cost base, whether for indirect costs rates or cost allocations, is necessary for an equitable distribution. This is because items such as large subcontracts and pass through funds do not normally incur the full range of allocable costs such as space, heat, phones, payroll, etc. However, since subcontracts do require some monitoring, the Circulars allow for the inclusion of the first \$25,000 of each subcontract in the total direct cost base.

POLICY

Providers must carefully select a base for cost allocations that will result in an equitable distribution of costs. The distribution base may be (1) total direct costs (excluding capital expenditures and other distorting items, such as pass through funds, major subcontracts, etc.), (2) direct salaries and wages, or (3) another base which results in an equitable distribution. An example of another base would be square footage occupied to allocate rent, heat and electricity.

Providers using total direct costs as the base will be allowed to include the first \$25,000 of each subcontract in the base. However, all capital expenditures, pass through funds (including state paid client benefits but not Job Access Loans) and any other distorting items must be excluded from the base. If you have special circumstances which makes the exclusion of these items result in an inequity, please contact DWS or consider using an alternate base. Exceptions will be considered on a case by case basis.

Although client benefits and the full amount of subcontracts are excluded from the base for cost allocation purposes, this policy does not prohibit the inclusion of these costs to calculate the administrative cap for the W-2 program. However, the use of these costs to calculate the administrative cap is not to be construed as justification to include these costs in the cost allocation base.

If you have questions concerning the selection of a base or concerning what costs may be included or excluded from a base, please contact DWS.

QUESTIONS

Contact Mark Macke, (608 266-5309 or email mark.macke@dwd.state.wi.us) or Jim Foelker, (608 266-3623 or email james.foelker@dwd.state.wi.us) in the DWS Grants & Contracts Section.