

Allocation of Shared Costs and Allocation Plan Development

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Learning Objectives

- Understand the difference between Direct and Indirect costs
- Understand why costs are shared between agency programs
- Review the main methods of cost allocation.



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Direct Costs

Costs that can be identified specifically with a particular project relatively easily and with a high degree of accuracy

- Easily identified to a cost objective
- Typically benefit one program only
 - Program Salaries (CSBG Director, CSBG case worker)
 - Client Services
 - Space costs for program activities
 - Staff travel
 - Equipment
 - Supplies

Indirect Costs

Costs incurred for common or joint purposes, benefiting more than one cost objective and are not readily assignable to a specific cost objective

Not easily identified to a particular program

Typically benefit more than one program

Most costs above can also be charged directly depending on your agency's cost allocation methodology.

Indirect Costs

Also referred to as
"Administration and
Support costs".



These include costs
associated with:

- Administrative Salaries
(ED, FD, HR, Finance
staff)
- General record keeping
- Business management
- Budgeting
- Board activities



Cost Principles

Federal cost principles apply to every agency cost whether or not it is recorded as direct or indirect. Determination as to allowability in each case should be based on the treatment or principles provided for similar or related items of cost.

Cost Allocation

means the process of assigning to two or more programs the costs of an item shared by the programs.

The goal is to ensure that each program bears its fair share of the total cost of the item.

This is achieved by...

Distributing costs to a benefiting "Cost Objective"
Accomplished by using data that measures the usage of a service or the relative benefit received from that service.





Methods used for allocating costs

- Charging program based on actual usage (must have method to accurately record usage)
- Number of Program Staff (Number of FTE's)
- Program Square Footage
- Mixture of some or all of the above



Allocating based on actual usage/cost

The following two methods are most accurate when accounting for shared costs.

Travel Expense Example

CSBG employees traveled 680 miles this month for program purposes. Agency reimburses employees at \$.555 per mile.

($680 \times .555 =$ \$377.40 charged to CSBG travel expenses)

Allocating based on actual usage/cost

Printing/Copier Example

Each agency program is given a code to use before copies can be made. 600 copies were made for CSBG according to code usage @ \$.07 per copy.

($600 \times \$0.07 = \underline{\$42.00}$ charged to CSBG copier expenses)

Program Staff (FTE's)

Example:

Agency has 50 total employees or FTE's (full time equivalents)

CSBG has 10 FTE's

$10/50 = .20$ or 20% of total agency FTE's

Using this method, CSBG would be responsible for 20% of all agency shared communication expenses (internet, telephone, postage, etc.)



Example: Communications expense amount = \$5,000

This example incorporates all programs/grants. In this example Communications costs are allocated based on Full Time Equivalents (FTE's). FTE's for each program is considered in the analysis.

Grant	Full Time Equivalents (FTE's)	%	Amount Allocated
A	10	20%	\$1,000
B	10	20%	\$1,000
C	15	30%	\$1,500
D	5	10%	\$500
E	10	20%	\$1,000
<i>Total</i>	<i>50</i>	<i>100%</i>	<i>\$5,000</i>

Program Staff (FTE's)

This method is simple to employ, but should only be used if the agency has equally shared costs throughout, based on their number of FTE's.

When should it not be used?

If your agency's Weatherization program has more staff members, but most of them are in the field and do not use agency resources such as phone lines, internet, copiers, etc. then this method would not be REASONABLE to use.

Consequently if your CSBG program makes 50% of your agencies copies or has 50% of your agency's landline phones, then it would not be REASONABLE or allowable to charge CSBG less than 50% of those costs.

Square Footage

Space Costs (rent) is \$3,500 combined for two agency offices.

The main office rent is \$2,500 a month for 4,000 sq. ft., of which CSBG occupies 20% (800 sq. ft.) of the facility.

The second office rent is \$1,000 a month for 1,200 sq. ft., of which CSBG occupies 50% (600 sq. ft.) of the facility.

Example:

Site 1: $\$2,500 \times 20\% = \500.00

Site 2: $\$1,000 \times 50\% = \500.00

Total CSBG share of the rent is 28.6% of \$3,500, or \$1,000

This same method can also be used to calculate maintenance and utilities expenses.

Example: Facilities expense amount = \$10,000

This example incorporates all program costs and Administrative (Indirect) costs. In this example Facilities costs are allocated based on square footage. Square footage for each program and administrative activity is considered in the analysis.

Grant	Square Footage	%	Amount Allocated
A	300	30%	\$3,000
B	100	10%	\$1,000
C	200	20%	\$2,000
D	200	20%	\$2,000
E	100	10%	\$1,000
Administrative	100	10%	\$1,000
Total	1,000	100%	\$10,000

Schedule A from a sample Indirect Cost Proposal

Sample Cost Allocation Plan

<http://www2.ed.gov/about/offices/list/ope/trio/allocation-plan.pdf>

Elements of Cost	Methodology of Allocation
Contractual services	Actual usage
Depreciation / use allowance	Direct and Indirect cost
Emergency assistance payments	Direct cost
Equipment rental and maintenance	Rental and maintenance on equipment used in central office finance office
Equipment / capital	Purchasing of office furniture for use in performing administrative services
Equipment / minor	Actual usage
Insurance	Actual usage
Occupancy	Central office repairs and utilities on basis of square footage used for administrative services
Office supplies	Office and janitorial supplies for administrative and program services
Other expenses	Based on administrative services actual use
Postage	Actual usage
Printing	Actual usage
Professional fees	Accounting and audit services, payroll processing services, charged on work performed for administrative services
Program materials	Direct cost
Program supplies	Charged to project as costs are incurred; direct cost
Renovations and improvements	Direct cost
Telephone	Basic services allocated on number of instruments, toll calls charged on basis of logs of such calls for administrative services
Travel	Actual usage



Cost Allocation

To maintain proper cost allocation controls, organizations should maintain an adequate accounting system. Accounting records including cost accounting records should be supported by source documentation.

- Funds should not be commingled
 - Funds specifically budgeted/received for one project may not be used to support another.

Always remember that allocating expenses should be reasonable and be based on sound principles and judgment.

- Your organization may use a different method not reviewed in this presentation or more than one method of cost allocation.



Reminders

- Similar expenses should be cost allocated using the same method, i.e. allocating utilities costs (A/C, Heat, electricity) using the same method.
- Certain allocation methods should not be used on certain costs, i.e. utilities expenses should not be based off program staff salaries as the usage of those utilities does not have a correlation to staff salaries.
- Whatever method(s) your agency decides to use, it should be:
 - Used consistently
 - Put in writing
 - Approved by the Executive Director and Board of Directors
 - Updated frequently to reflect actual agency expenses

How does your organization allocate shared agency costs?



Questions?

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Resources

- Sample Indirect Cost Proposal
www.epa.gov/ogd/recipient/sample1.htm
- Sample Cost Allocation Plan Narrative:
www.danecountyhumanservices.org/pdf/Sample_Org_Cost_Allocation_Plan.pdf
- State of Tennessee, Office of the Comptroller - Cost Allocation Overview
<http://www.comptroller1.state.tn.us/ma/nonprofit/Nonprofit4.pdf>
- Office of Management and Budget - Circular No. A-122 (Cost Principles for Non-Profit Organizations)
http://www.whitehouse.gov/omb/circulars_a122_2004/
- Office of Management and Budget - Circular No. A-87(Cost Principles for State, Local, and Indian tribal governments)
http://www.whitehouse.gov/omb/circulars_a087_2004