Cost Allocation 101

Why This Session Is Needed

Understand the difference between direct and indirect costs along with:
• Key terms
• Concepts
• Process for allocating direct and indirect costs

Identify appropriate bases for allocating direct and indirect costs

New...
• de minimis rate available, if qualified, for recovering indirect costs
• requirement for identifying components of indirect cost pools for certain organizations

Lesson Overview & Module Objectives

• Define cost allocation terms
• Identify cost allocation requirements
• Understand cost allocation principles
• Identify appropriate bases for allocating costs
• Learn change to the documentation standard for distributing personnel expenses
Cost Allocation 101

Knowledge Check

On a scale of 1 (lowest) to 5 (highest), rate your knowledge and understanding of the following by circling the appropriate number in the middle column of the sheet, labeled Pre-Training, for each of the statements.

- The difference between direct and indirect costs
- The difference between intermediate and final cost objectives
- Appropriate bases for allocating different types of pooled costs
- I understand the facilities and administration components of an indirect cost rate proposal
- I understand what proportional benefit means

Uniform Guidance

- Define cost allocation terms
- Identify cost allocation requirements

Learning objectives for this section

Cost Allocation

2 CFR 200.4

Allocation

- The process of assigning a cost, or a group of costs, to one or more cost objective(s), in reasonable proportion to the benefit provided or other equitable relationship.
- The process may entail assigning a cost(s) directly to a final cost objective or through one or more intermediate cost objectives.
Allocable Costs

A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received.

Criteria for meeting this standard:
• Benefits both the Federal award and other work of the non-Federal entity, and
• Can be distributed in proportions that may be approximated using reasonable methods.

Necessary to the overall operation of non-Federal entity, and assignable, in part, to the Federal award in accordance with UG cost principles.

Cost Objectives

200.28 Cost Objective
• A program, function, activity, award, organizational subdivision, contract, or work unit for which cost data are desired

200.60 Intermediate Cost Objective
• A cost objective used to accumulate indirect or service-center costs that are subsequently allocated to one or more indirect cost pools or final cost objectives.
• Example: WIOA One-stop’s facilities costs (rent, utilities, repairs and maintenance costs, etc.)

200.44 Final Cost Objective
• Both direct and indirect costs are allocated to it
• One of the final accumulation points: an award, internal project, other direct activity
• Example: WIOA Adult program award

Cost Pooling

Direct charge costs to a final cost objective when possible

When that is not possible or practical, use an intermediate cost objective (cost pool)

• For any type of cost or grouping of similar costs not readily identified with a single final cost objective (Example: case management function; salaries, space cost, supplies, etc.)
• Ultimately allocated to final cost objectives in proportion to the relative benefits received (Example: WIOA Adult, DW, Youth programs)

• Limited to shared direct and indirect costs
• Only actual, not budgeted, costs may be pooled when being charged to awards
• All costs in the pool must be allowable costs for all the cost objectives to which the pooled costs will subsequently be allocated
Cost Allocation Methods

Cost Allocation Plan
- Direct Costs
- Indirect Costs

Indirect Cost Rate
- Negotiated rate
- De minimis rate

Cost Allocation Plan
- Direct Costs
- Indirect Costs

Infrastructure Funding Agreement

Provides agreement among partners for infrastructure funding

Similar to that required under WIA, but with additional terms and conditions

Additional guidance to come

Types of Costs

Direct Costs
- Program
- Administrative

Indirect Costs
- Program
- Administrative
Direct Costs

Definition 2 CFR 200.413

• Direct costs are those costs that can be identified with a particular final cost objective, such as a Federal award, or
  - other internally or externally funded activity, or
  - that can be directly assigned to such activities relatively easily and with a high degree of accuracy.

• Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs.

Examples of Direct Costs

Costs that are directly charged to a single program:
- Salaries for a case manager who only works with dislocated workers
- Square footage of space occupied by the case manager above
- Communications devices, such as a cellphone used by the case manager
- Supplies used by the case manager

Examples of Direct Shared Costs

Costs that benefit more than one program:
- Salaries for a case manager who only works with adult, dislocated workers, and youth participants
- Square footage of space occupied by the case manager
- Communications devices, such as a cellphone used by the case manager
- Supplies used by the case manager
Modified Total Direct Costs (MTDC)

MTDCs are:
- Actual salaries, wages, fringe benefits, materials and supplies, services, travel; subawards up to the first $25,000 of each subaward

MTDC Exclusions:
- Equipment, capital expenditures, patient care
- Rental costs, tuition and participant support costs
- Portion of each subaward in excess of $25,000
- Other items may be excluded by Federal cognizant agency

Indirect (F&A) Costs Defined

2 CFR 200.56

Indirect (Facilities & Administrative) costs
- Costs incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved.

- To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs.
- Indirect (F&A) cost pools must be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

Indirect F&A Costs

200.414 Indirect (F&A) Costs

Facilities
- Defined as depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses.

Administration
- Defined as general administration and general expenses such as the director’s office, accounting, personnel and all other types of expenditures not listed specifically under one of the subcategories of Facilities.
Indirect Costs Examples

- Salaries for executive director, accountants, personnel staff, etc.
- Square footage of space occupied by indirect staff
- Supplies used by indirect staff
- Communications devices used by indirect staff

De Minimis Rate

2 CFR 200.414(f)

Eligible Entity
- Has indirect costs; never received a negotiated indirect cost rate
- May charge 10% of modified total direct costs (MTDC) for an indefinite period

Non-eligible entity
- Governmental units with more than $35 million in direct Federal funding

Other Definitions

2 CFR 200.402 & 200.404

- Reasonable Costs
  - A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.
- Total Costs
  - Sum of the allowable direct and allocable indirect costs less any applicable credits.
Status Check

In the following examples, identify whether the costs are
• Direct or indirect, and
• Assigned to intermediate or final cost objective.

The case manager serves WIOA youth program clients only

The case manager serves clients enrolled in the WIOA Adult, Dislocated Worker, and Youth programs

The organization’s Human Resources (HR) Department purchases a copier machine and charges its offices and programs for the HR services it provides

Cost Allocation Principles

Learning objectives for this section

• Understand cost allocation principles

Consistent With Cost Principles (1 of 2)

• Allocate costs to cost objectives in reasonable proportion to benefits received
• If no benefit, not a necessary cost

Reasonable Allocable Necessary

ALLOWABLE COSTS
Consistent with Cost Principles (2 of 2)

**Consistent Treatment**
- Costs incurred for the same purposes in like circumstances
- Cannot charge as direct cost to one grant and as indirect to another
- Cannot shift costs from one cost objective to another to overcome funding deficiencies, avoid restrictions imposed by law or grant agreement, or other reasons
  - From one grant to another grant (exception on next slide)
  - From administrative to program cost category
  - From direct to indirect cost or vice versa

Grant-to-Grant Cost Shifting Exception

**2CFR 200.405(c)**
- [The prohibition against shifting costs between/among Federal awards] would not preclude the non-Federal entity from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.

Allocation Principle

**2CFR 200.405(d)**
- If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit.
Costs are allocable to a particular cost objective to the extent of relative benefits provided to that cost objective.
- If no benefit received, then it is not allocable to that objective.

Costs pooled or assigned to intermediate cost objectives must be allocated to final cost objectives using an acceptable allocation base.

Method used for measuring benefit is an integral part of the process for allocating costs.
- The method used is the allocation base.

Administrative v. Program: Administrative Costs
Per WIOA: Costs associated with carrying out administrative and general management functions:
- Accounting, Budgeting, Payroll, Procurement, Cash Management
- Automated systems, maintenance, equipment
- Facilities, Property Management, Insurance, Personnel
- Any contract or sub-award that is "administrative" in function
- Monitoring, Audit, Investigations, Incident Reports, Resolution activities
- General legal, Human Resources

Administrative v. Program: Program Costs
Costs directly associated with the functions dealing with participants and training are program costs:
- Costs not considered administrative in definition or nature
- Costs related to participants; direction, supervision, management, tracking
- Costs related to training, providers, LMI, performance
- Cost directly associated with a program activity or participant
Indirect v. Administrative Costs

Step 1: Indirect cost proposal can distinguish which indirect costs in the pool are program or administrative to establish proportional % each represents in the pool.

Step 2: Apply approved indirect cost rate against the correct base to determine amount of recovered indirect costs.

Step 3: Apply the administrative and program proportional % of the pool (Step 1) to the recovered indirect costs (Step 2).

Step 4: Indirect administrative costs charged as administrative costs.

Remember that the amount chargeable may be limited.

Allocation Bases

Learning objectives for this section
• Identify appropriate bases for allocating costs

Standards for Acceptable Bases (1 of 2)
Related to the types of costs being allocated
Fair measure of cost generation or benefit
Results in equitable allocation of costs
Minimal distortion
Cost Allocation 101

Standards for Acceptable Bases (2 of 2)

- Actual effort or cost
- General acceptability
- Cost-effective use of available and representative data
- Timely management control
- Adjusted for variations in funding and services provided

Unacceptable Allocation Bases

- Funds Available
- Plans, budgets or estimates not adjusted for actual costs
- Non-contemporaneous data such as results from prior periods
- Job descriptions
- Number of staff hours budgeted to an activity not adjusted to actual hours
- Planned expenditure levels
- Planned participant levels

Using Inputs as the Base

Inputs

- Resources used: examples and documentation
- Number of employees - staffing plan
- Number of transactions - transactions count

- Direct labor hours - timesheets/Personal Activity Reports
- Space usage - floor plan showing space used by program/function

- Traditional method of allocation
- Allocated at time of cost incurred
- Adjustments to plan
  - How the input is being used
  - How the usage varies
Using Outputs as the Base

Outputs

- Work units or products completed
- Numbers served

- Results obtained
- Allocated at the end of the process or period of time
- Percent share of expenditures

- Documentation
  - Numerical counts
  - Expenditure reports

Examples of Output Bases

- **Centralized Intake**
  - Number of Participants

- **Job Placement**
  - Number of placements made

- **Administration (no outputs)**
  - % of direct expenditures or other bases for indirect costs per an approved CAP or ICR

- **Case Management**
  - Number of participants currently enrolled by program

- **Services Prior to Enrollment**
  - Number of customers eligible by program

Examples of Bases (1 of 3)

<table>
<thead>
<tr>
<th>Cost Allocations</th>
<th>Bases</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accounting</strong></td>
<td>Number of transactions, direct labor hours, allowable survey methods</td>
</tr>
<tr>
<td><strong>Auditing</strong></td>
<td>Expenditures audited, Direct audit hours</td>
</tr>
<tr>
<td><strong>Budgeting</strong></td>
<td>Direct labor hours</td>
</tr>
<tr>
<td><strong>Consumable Supplies</strong></td>
<td>Total direct costs, Direct labor hours</td>
</tr>
<tr>
<td><strong>Case Manager</strong></td>
<td>Number of current enrollees, Number of participants counseled, Direct labor hours</td>
</tr>
<tr>
<td><strong>Data Processing</strong></td>
<td>System usage, Direct labor hours</td>
</tr>
<tr>
<td><strong>Disbursing Service</strong></td>
<td>Number of checks issued, Direct labor hours</td>
</tr>
</tbody>
</table>
### Examples of Bases (2 of 3)

<table>
<thead>
<tr>
<th>Intake</th>
<th>Number of eligible participants, current period enrollments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>Number of employees, Direct labor hours, Direct expenditures</td>
</tr>
<tr>
<td>Office Space</td>
<td>Square feet of space occupied, Direct labor hours</td>
</tr>
<tr>
<td>Payroll Services</td>
<td>Number of employees</td>
</tr>
<tr>
<td>Personnel Services</td>
<td>Number of employees</td>
</tr>
<tr>
<td>Postage</td>
<td>Direct usage, Acceptable survey methods</td>
</tr>
<tr>
<td>Reception and intake services</td>
<td>Direct expenditures, Current enrollees</td>
</tr>
</tbody>
</table>

### Examples of Bases (3 of 3)

<table>
<thead>
<tr>
<th>Printing/ Reproduction</th>
<th>Direct labor hours, Job basis, Pages printed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplies</td>
<td>Number of employees, Direct labor hours</td>
</tr>
<tr>
<td>Telephone</td>
<td>Number of employees, Direct labor hours</td>
</tr>
<tr>
<td>Travel</td>
<td>Mileage, Actual expenses, Direct labor hours</td>
</tr>
<tr>
<td>Utilities</td>
<td>Square feet of space occupied, Direct labor hours</td>
</tr>
</tbody>
</table>

### Indirect Costs Allocation Bases

- Direct salaries
- Direct salaries and fringe benefits
- Total direct costs
- Modified Total Direct Costs (MTDC)
Documentation Standards for Distributing Personnel Expenses

Learning objectives for this section

- Learn change to documentation standards for distributing personnel expenses

Payroll Distribution: Basic Standards for Documentation (1 of 3)

Supported by a system of internal controls, provides reasonable assurances that charges are:

- Accurate
- Allowable and Reasonable
- Properly Allocated

Payroll Distribution Records

- Incorporated into the official records
- Reasonably reflect the employee’s total activity - Not to exceed 100% of compensated activities
- Encompass both Federally assisted and all other activities compensated on an integrated basis

- Comply with accounting policies and practices
- Support the distribution of salary or wages among specific activities or cost objectives if employee works on more than one award or activity
Payroll Distribution: Basic Standards for Documentation (3 of 3)

Payroll records meeting these standards are not required to provide additional documentation of work performed.

Federal Gov’t may require personal activity reports or equivalent if records do not meet these standards.

Non-exempt employees: must record total number of hours worked each day to comply with FSLA.

Institutions of Higher Education:
- Categories of activities may be expressed as a %
- Intermingled duties: precision not always feasible.

Same standards apply to documenting salaries and wages for cost sharing and match requirements.

Federal Gov’t may require personal activity reports or equivalent if records do not meet these standards.

Institutions of Higher Education:
- Categories of activities may be expressed as a %
- Intermingled duties: precision not always feasible.

Payroll Distribution: Basic Standards for Documentation (3 of 3)

Status Check

For each type of expense, identify an acceptable base(s) that may be used to allocate that cost.

Expenses
1. Case manager's salary
2. Job developer's travel
3. Employer services costs
4. Joint copier machine
5. Conference room

Bases
A. Direct labor hours
B. Direct expenditures
C. Number of participants currently enrolled
D. Square footage
E. Number of units (specify type of units)
F. Other (specify)

Key Concepts (1 of 2)

UG specifically defines direct and indirect costs.

WIOA defines program and administrative costs.

Indirect costs may be program and/or administrative.

Key Concepts (1 of 2)
Key Concepts (2 of 2)

- UG provides for a de minimis rate for recovering indirect costs for qualifying entities that elect not to request approval for an ICR.
- Costs that benefit multiple cost objectives must be allocated based on proportional benefits received.
- Direct costs are allocated with a CAP; indirect costs with an approved ICR or CAP or de minimis rate.

Knowledge Check

On a scale of 1 (lowest) to 5 (highest), rate your knowledge and understanding of the following by circling the appropriate number in the column of the sheet, labeled Post-Training, for each of the statements.

- The difference between direct costs and indirect costs
- The difference between intermediate and final cost objectives
- Appropriate bases for allocating different types of pooled costs
- I understand the facilities and administration components of an indirect cost rate proposal
- Understand what proportional benefit means

THANK YOU!

PLEASE COMPLETE YOUR EVALUATIONS