



COST ALLOCATION:

Cost Allocation Plans & Indirect Cost Rates

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Cost Allocation Plan

Learning Objectives

- Identify who needs to have a CAP
- Identify the components of a CAP
- Identify who needs an ICR
- Identify the elements of the ICR



Does My Organization Need a CAP?



If your organization has more than one funding source, Federal or non-Federal, and allowable direct or indirect costs that benefit multiple cost objectives, you need a CAP (direct/indirect) or indirect cost rate (indirect costs)



Ensures equitable cost-sharing among all benefitting funding streams, Federal and non-Federal

Why Do I Need a Cost Allocation Plan or ICR? (1 of 2)

According to the Uniform Guidance:

2 CFR 200.56 Indirect (facilities and administrative) costs

Indirect (F&A) costs means those costs incurred for a common or joint purpose benefitting more than one cost objective, **and not readily assignable to the cost objective benefitted, without undue 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 costs objectives on bases that will produce an equitable result in consideration of relative benefits derived.

2 CFR 200.412 Classification of costs

[...] 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 be **treated consistently** in like circumstances either as a direct or an indirect (F&A) cost in order to avoid possible double-charging of Federal awards. [...]

Why Do I Need a Cost Allocation Plan or ICR? (2 of 2)

Appendix IV to Part 200 Indirect Costs Identification and Assignment, and Rate Determination for Non-profit Organizations:

A. General

1. [...] **After direct costs have been determined and assigned directly to awards or other work as appropriate**, indirect costs are those remaining to be allocated to benefitting cost objectives. [...]

2 CFR 200.403 Factors affecting allowability of costs:

Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

(g) Be **adequately documented**

Cost Allocation Plan (CAP)

Definition

2 CFR 200.27

- Cost allocation plan means central service cost allocation plan or public assistance cost allocation plan



What is a Cost Allocation Plan?



A document that identifies, accumulates, and distributes allowable direct and indirect costs and identifies the allocation methods used for distribution

Cost Allocation Plans

Minimum requirements



In writing



Supported by formal accounting records



Signed by authorized agency official



Include a process for reconciliation and adjustment

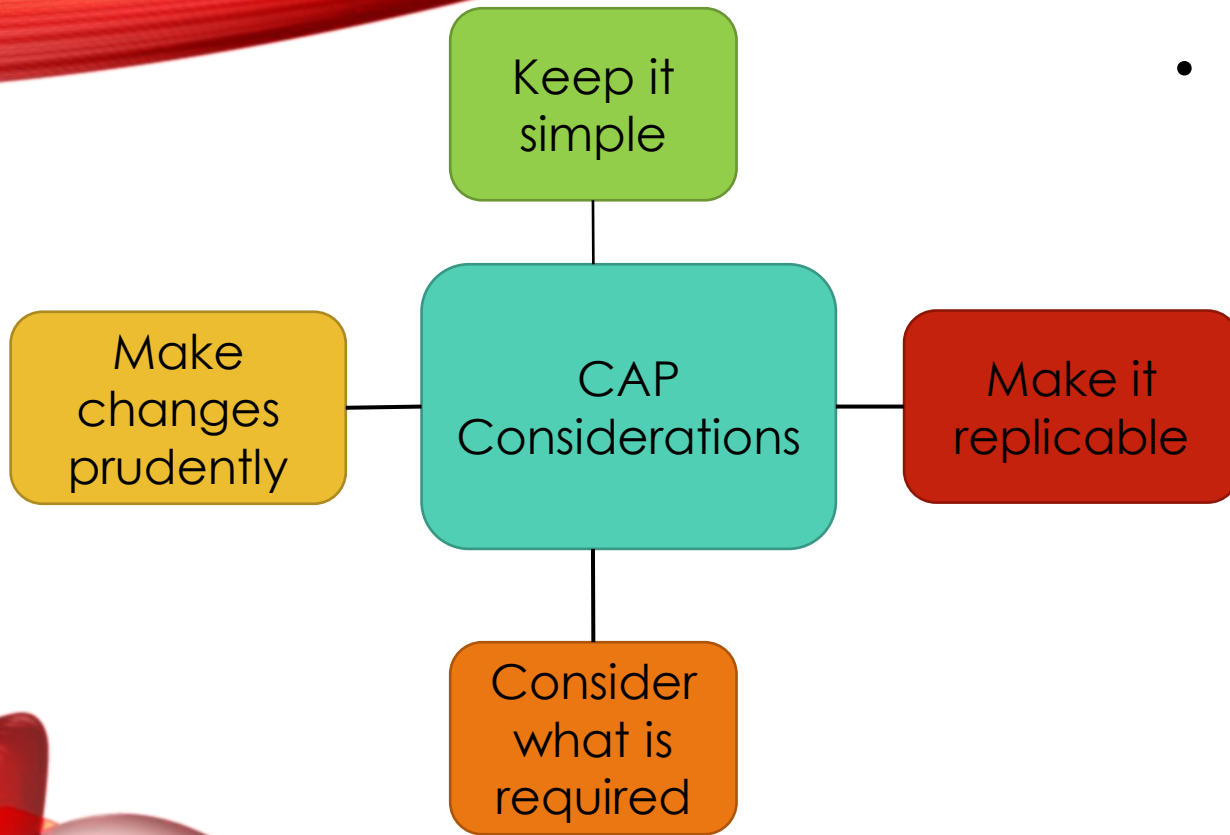


Periodically validated and updated



Costs should then be allocated in accordance with the methodology contained in the CAP

Cost Allocation Plans



- CAP subject to audit
 - Meets cost allocation standards?
 - Recommend obtaining prior auditor review of CAP
 - Costs allocated consistent with CAP?

Cost Allocation Plans

4 Basic steps
to establishing
a Cost
Allocation
Plan

Step 1: Identify which costs will be treated as a direct and indirect cost

Step 2: Describe how shared direct costs will be allocated to benefitting programs

Step 3: Decide if remaining indirect costs will be charged through an ICR or allowable direct allocation method

Step 4: Get ICR approval from Federal cognizant agency; CAP is approved by ADWS

CAP Elements



Background and mission statement, including organizational chart



Description of the types of services provided



Copies of financial statements and current budgets



Shared expenses included in the cost of services to be allocated



Allocation bases used for distributing expenses to benefitting cost objectives

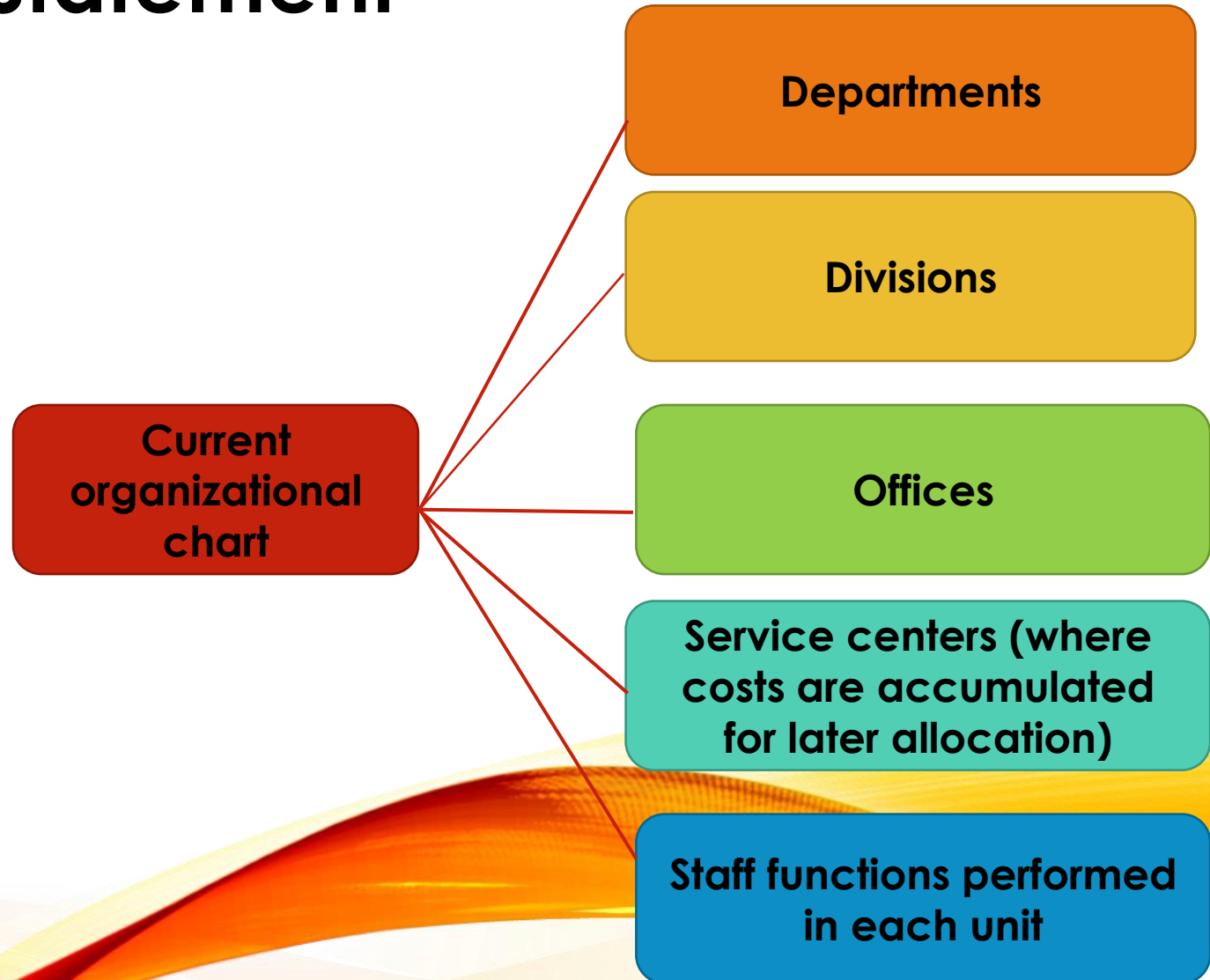
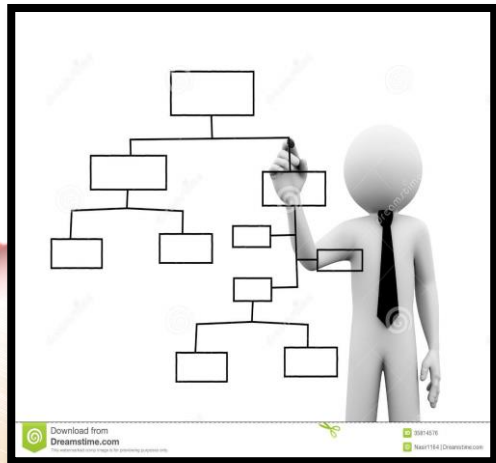


Certification by authorized official



Background and Mission Statement

- Description of the departments, types of services, and staff functions of the organization corresponding to the organization chart



Services Provided

Example: Case management division

- There are three case managers and one lead counselor in this division serving WIOA Adult, Youth, and Dislocated Worker participants.



They provide the following services:

- Core and intensive assessment services to enrollees
- Ongoing counseling and case management services
- Assessment of need and provision of appropriate supportive services
- Follow-up services within the organization or outside agencies as appropriate
- Maintenance of case management records

Financial Statements and Budget

THE SAFE HOUSE
STATEMENT OF ACTIVITIES
For the year ended June 30, 2016
(With comparative figures for 2015)

	Temporarily Restricted		Total	Temporarily Restricted		Total
	2015	2016		2015	2016	
Support and Revenues:						
Contributions	\$ 1,018,633	\$ 22,422	\$ 1,041,055	\$ 945,796	\$ 32,388	\$ 978,184
Government grants and contracts	553,214	-	553,214	382,012	-	382,012
Donated materials and services	294,337	-	294,337	302,913	-	302,913
Special events revenues	-	-	-	-	-	-
net of office costs (Note 11)	(29,616)	-	(29,616)	4,770	-	4,770
Rental income	-	-	-	-	-	-
net of direct costs	30,377	-	30,377	32,451	-	32,451
Investment income	11,000	-	11,000	13,004	-	13,004
Other income	6,368	-	6,368	2,855	-	2,855
Net assets released from restrictions	49,770	(49,770)	-	247,116	(247,116)	-
Reduction of program restrictions	-	-	-	-	-	-
Total support and revenues	\$ 1,863,612	\$ 20,652	\$ 1,884,264	\$ 1,681,077	\$ 214,272	\$ 1,895,349
Expenses:						
Program services	\$ 1,375,628	\$ 1,375,628	\$ 1,375,628	\$ 1,375,628	\$ 1,375,628	\$ 1,375,628
Administration	67,375	-	67,375	60,855	-	60,855
Facilities	170,672	-	170,672	177,734	-	177,734
Total expenses	\$ 1,613,675	\$ 1,613,678	\$ 1,627,353	\$ 1,614,217	\$ 1,614,217	\$ 1,627,353
Change in net assets	\$ 249,937	\$ 20,974	\$ 270,911	\$ 66,860	\$ 214,272	\$ 287,766
Net Assets:						
Beginning of year	\$ 4,088,515	\$ 28,148	\$ 4,086,667	\$ 4,083,097	\$ 343,006	\$ 4,275,091
End of year	\$ 4,338,452	\$ 49,122	\$ 4,338,574	\$ 4,149,957	\$ 557,278	\$ 4,707,235



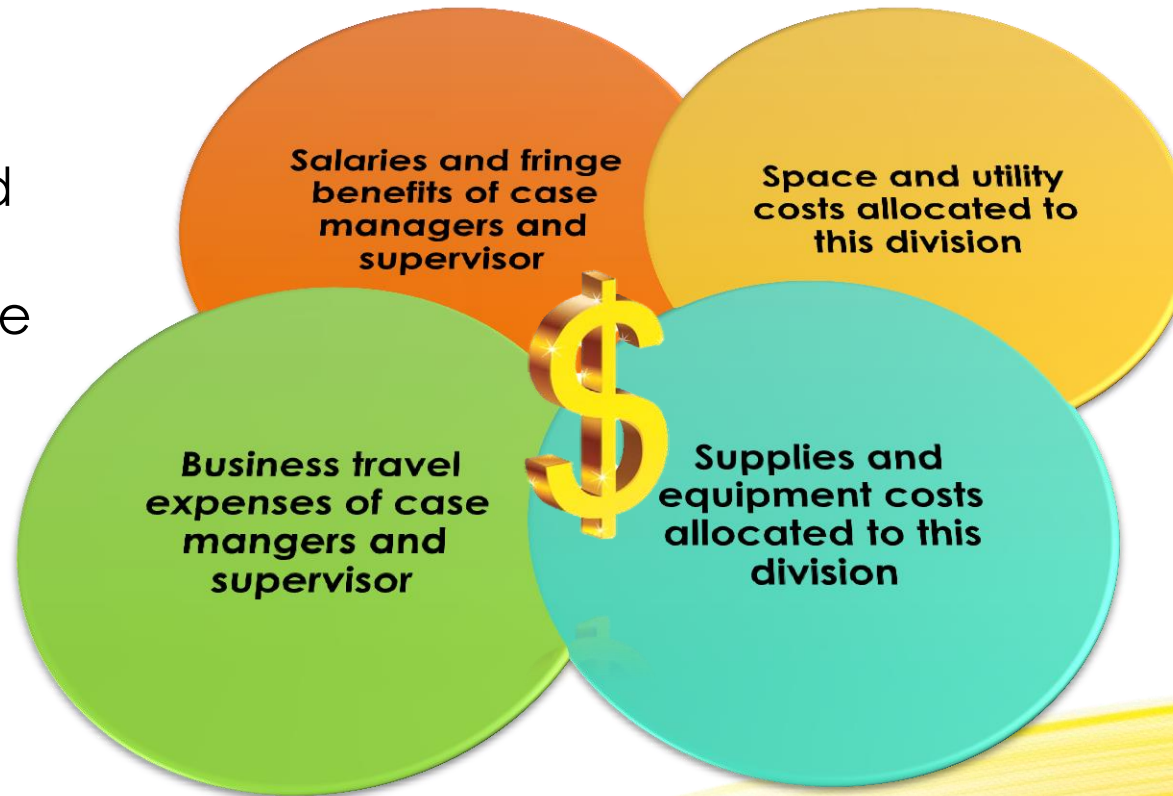
Include most recent year-end statements

Include the approved budget(s) for the same year corresponding to the financial statements

Shared Expenses to be Allocated

- All expenses of the division are direct and shared direct costs combined into a single pool.

The expenses include:



Allocation Bases

- Allocation bases used for distributing expenses to benefitting cost objectives

Example: Case management division

- The pooled costs of this division are allocated to
 - The WIOA Adult,
 - Youth, and
 - Dislocated Worker programson a monthly basis in proportion to the number of participants currently enrolled in each program on the last working day of each month

Certification by Authorized Official



Signed by an authorized official

- Chief Financial Officer
- Agency Director

Frequently Found Mistakes

Avoid frequently found mistakes



No written CAP, costs subject to disallowance



Not following own CAP, often because it is outdated



Staff costs not being allocated; Direct charging of staff time to one program when individuals were working on multiple programs



Allocation based on budget or funding levels without adjustment for actual costs on at least quarterly basis, per Uniform Guidance



INDIRECT COST RATES

Identify how to calculate an indirect cost rate

Why charge indirect costs?

Why I would need a rate?

WHY CHARGE INDIRECT COSTS?



Allow recipients and subrecipients to recover costs that cannot be easily allocated without effort disproportionate to the results achieved.



Recipient makes a decision on merits of collecting or not collecting indirect costs associated with grant(s)

WHY I WOULD NEED A RATE



Ensure equitable cost-sharing among all funding streams, Federal and non-Federal



Means of charging administrative costs



No rate needed if no indirect costs in budget



A rate is required if recipient has a direct Federal cost reimbursable grant, has more than one funding source, and will request reimbursement for indirect costs

DO INDIRECT COST RATES APPLY TO NON-FEDERAL FUNDING?

ALL funding, Federal and non-Federal, is included in rate calculation

Indirect cost rate allocates pooled expenses to all activities, including fundraising and non-Federal activities

Once allocated, non-Federal funding source determines if indirect costs are allowable charges to its Federal awards



ALLOCATION OF INDIRECT COSTS

- Indirect (F&A) costs mean those costs incurred for a common or joint purpose but not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved
 - Commonly referred to as overhead costs

Method of allocation is an Indirect Cost Rate (ICR)

Approved by Federal cognizant agency for direct recipients, or pass-through entity for subrecipients

Cannot charge indirect costs without approved ICR

Must apply for ICR within 90 days after award

INDIRECT COST RATE CALCULATION



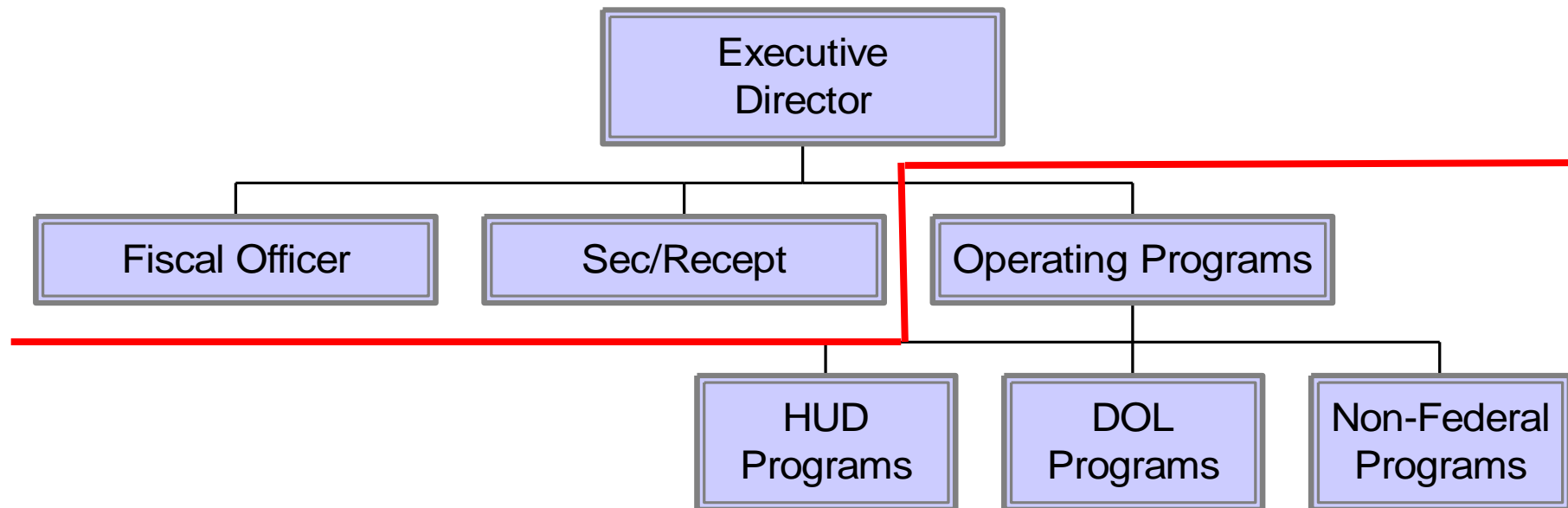
An indirect cost rate is simply a method used to determine what amount of indirect costs each program (funding source) should pay

$$\frac{\text{Indirect Costs (pool)}}{\text{Direct Costs (base)}} = \text{ICR}$$

POOL VS. BASE

Pool

Typical Nonprofit Corporation, Inc.



Base

TYPES OF BASES USED TO DETERMINE **ICR**

Direct salaries

Direct salaries and
fringe benefits

Total direct costs

Modified Total Direct
Costs (MTDC)

ICR PROPOSAL COMPONENTS

- ✓ Organization Chart
- ✓ Documentation of personnel expenses
- ✓ Signed cost policy statement
- ✓ ICR proposal
 - ✓ Personnel costs worksheet
 - ✓ Allocation of personnel worksheet
 - ✓ Fringe Benefits worksheet
 - ✓ Statement of total costs
 - ✓ Statement of Indirect costs
 - ✓ Audited financial statements
 - ✓ Certification

TYPES OF ICR

Predetermined Rate

Estimate not exceeding rate based on actual costs

Fixed Rate

Difference between estimate and actual carried forward as adjustment to rate for next period

Provisional Rate (or billing rate)

Temporary, adjusted when final rate determined



Final Rate

Determined after base period has passed



10 percent de minimis rate

- In lieu of a negotiated indirect cost rate, if qualified to use
- Applied against MTDC
- Can be used indefinitely until a negotiated indirect cost rate is requested

APPROVED RATE APPLIES TO ALL GRANTS



All Federal agencies accept the rate as Federally approved for their grants as well



Includes situations when the organization is a subrecipient of another grant



Actual allowable charges may be limited

- Grant budget
- Cost limitations
- Federal regulations
- Available funds

KEY CONCEPTS FOR AN ICR



An ICR allocates indirect costs that cannot be easily allocated without effort disproportionate to the results achieved



Indirect costs may be program and/or administrative



An indirect cost rate proposal requires the recipient to provide specific documentation and meet certain timeframes (200.416 and Appendices)



Pass-through entities have responsibilities to their subrecipients regarding indirect costs (200.331)

THANK YOU

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