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
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. [...]
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

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

2 CFR 200.27
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

Keep it simple

Make changes prudently

Consider what is required

CAP Considerations

Make it replicable

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

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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.

Current organizational chart:
- Departments
- Divisions
- Offices
- Service centers (where costs are accumulated for later allocation)
- Staff functions performed in each unit
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

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

Include most recent year-end 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:

- Salaries and fringe benefits of case managers and supervisor
- Space and utility costs allocated to this division
- Business travel expenses of case managers and supervisor
- Supplies and equipment costs allocated to this division
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 programs

  on 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

- **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**

Avoid frequently found mistakes
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

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

2. Means of charging administrative costs

3. No rate needed if no indirect costs in budget

4. 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.
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
An indirect cost rate is simply a method used to determine what amount of indirect costs each program (funding source) should pay.

**INDIRECT COST RATE CALCULATION**

\[
\text{Indirect Costs (pool)} \div \text{Direct Costs (base)} = \text{ICR}
\]
Typical Nonprofit Corporation, Inc.

- Executive Director
  - Fiscal Officer
  - Sec/Recep
  - Operating Programs
    - HUD Programs
    - DOL Programs
    - Non-Federal Programs

Pool VS. Base

- Pool
- 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

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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

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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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