

Cost Allocation

1

Cost allocation

- ◆ Both direct and indirect costs must be allocated to benefiting programs
- ◆ Must be consistent
- ◆ Like costs incurred for the same purpose in like circumstances are treated consistently

2

Direct costs

- ◆ Direct costs are any costs which can be identified specifically with the program/project:
 - Salaries of persons working directly on one project
 - Materials acquired for project
 - Materials used on project

3

Indirect costs

- ◆ Indirect costs are those having a common or joint purpose
- ◆ Not readily assignable but necessary to the general operations of the agency
- ◆ Allocation plan can be simple or complex
- ◆ Indirect costs may be limited by law

4

Examples of Indirect Costs

Because of the diverse characteristics and accounting practices of non-profit organizations, it is not possible to specify the types of cost which may be classified as indirect cost in all situations. Typical examples include:

- ◆ depreciation or use allowances on buildings and equipment
- ◆ the costs of operating and maintaining facilities
- ◆ general administration and general expenses, such as the salaries and expenses of executive officers, personnel administration, and accounting

5

Use of indirect cost rates

- ◆ Agencies may use a federally approved indirect cost rate
- ◆ Indirect cost rate may be used for selected items of cost up to the maximum contract administrative cost rate
- ◆ Independent auditor must validate the indirect cost rate or methodology
- ◆ Ensure compliance with OMB Circulars A-87 and A-122
- ◆ See ASMBC-10 and federal cognizant agency for guidance in preparing indirect cost rates

6

How to allocate costs

- ◆ Follow OMB Circulars A-87 and A-122
- ◆ Consistent methodology
- ◆ Equitable distribution across benefiting programs
- ◆ Traceable and measurable

7

Basis for cost allocation

- ◆ Independent auditor must identify the agency's basis for allocating costs to CSD contracts
- ◆ Costs charged to CSD contracts must be based upon actual expenses incurred for the CSD contract
- ◆ Costs charged to the CSD contract must also be approved in the contract budget

8

Cost allocation plan documentation

- ◆ Describe each service or activity to be allocated; and units receiving the service
- ◆ List the items of expense included in the cost of the services being allocated
- ◆ Identify the method used to distribute the cost of service to benefiting units
- ◆ Provide a summary schedule showing the allocation of each service to benefiting units
- ◆ Other supporting documentation including organization charts, financial reports, and certification of the plan

9

Don't

- ◆ Don't use administrative budget divided by months in contract term
- ◆ Don't use program budget line items divided by months in the contract term
- ◆ Don't use administrative cost limit as basis for allocating costs
- ◆ Don't use estimates (use actual costs)
- ◆ Don't shift costs due to funding limitations

10

Cost distribution examples

The next slide includes suggested bases for distributing joint costs. Note: The bases are suggestions only, and should not be used if they are not suitable for the particular services involved. Any method of distribution can be used which will produce an equitable distribution of cost. Source: ASMB-10

11

Cost distribution examples

Type of Service	Suggested Bases for Allocation
◆ Accounting	Number of transactions processed
◆ Auditing	Direct audit hours
◆ Budgeting	Direct hours of identifiable services of employees of central t
◆ Buildings lease management	Number of leases
◆ Data processing	System usage
◆ Employees retirement system	Number of employees contributing administration
◆ Insurance	Dollar value of insurance premiums
◆ Legal services	Direct hours
◆ Mail and messenger service	Number of documents handled or employees served
◆ Motor pool costs, including automotive management	Miles driven and/or days used
◆ Office equipment and maintenance	Direct hours
◆ Office space and related costs	Square feet of space occupied
◆ Payroll services	Number of employees
◆ Personnel administration	Number of employees
◆ Printing and reproduction	Direct hours, job basis, pages printed, etc.
◆ Procurement service	Number of transactions processed
◆ Health services	Number of employees
◆ Fidelity bonding program	Employees subject to bond or penalty amounts

12

Example: janitorial services

See the following example in Microsoft Excel.
Note: The example is hypothetical and is not intended as the only method of charging costs.

13

Personnel costs/time distribution

- ◆ If federal funds are used for salaries, time distribution records must be kept
- ◆ Include all programs worked by employee
- ◆ Must demonstrate that employees paid with federal funds actually worked on the specific federal program
- ◆ Distribution of salaries must be based on payrolls documented in accord with the generally accepted practices of the agency

14

Compensation for personnel services

- ◆ Salary plus allowable fringe benefits
- ◆ Must be reasonable
- ◆ Must be treated consistently
- ◆ Payments to boards, trustees, officers, family members must relate to services provided
 - Sudden increases, particularly if federal awards also increased, are subject to special review

15

Support for salaries

- ◆ Time reports must be after-the-fact
- ◆ Cover all compensated time
- ◆ Employee and supervisor must sign
- ◆ Prepared at least monthly and tie in with pay periods

16

References

- ◆ OMB circulars
- ◆ ASMB C-10
 - <http://rates.psc.gov/fms/dca/asmb%20c-10.pdf>
- ◆ Code of Federal Regulations (CFR)
- ◆ Contracts
- ◆ Supplemental audit guide

17

QUESTIONS?

Please email your questions to:

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18
