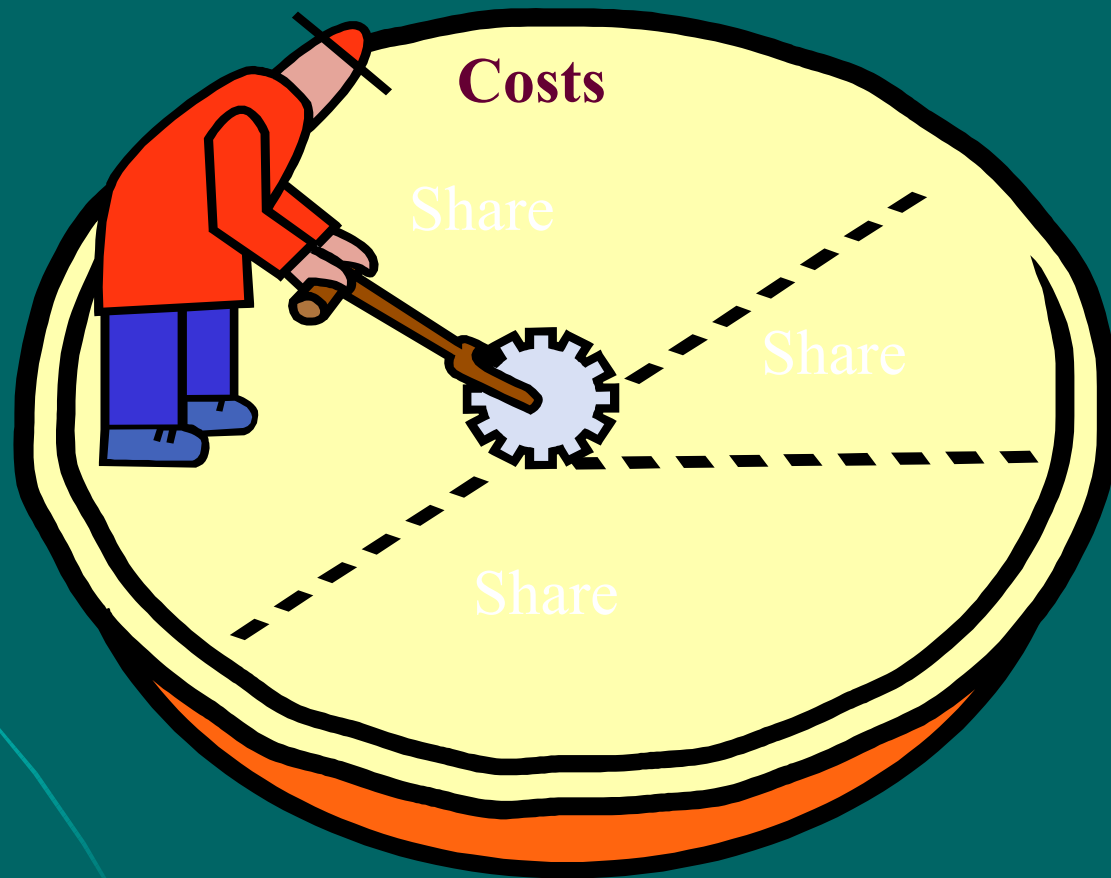


Cost Allocation & Indirect Costs

Chapter II-8

Definition




Federal Guidance

- OMB Circular A-87
- OMB Circular A-122
- OMB Circular A-21
- 48 CFR Part 31
- 45 CFR Part 74, Appendix E
- Guidance on direct and indirect costs

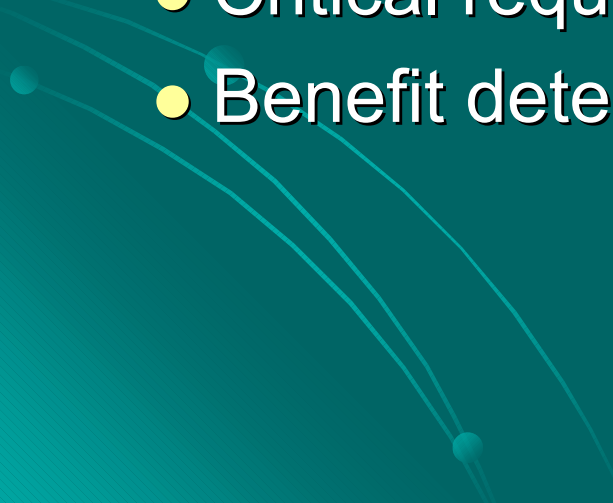
Types of Costs

- Direct
 - Single cost objective
- Shared
 - Multiple cost objectives, or
 - Multiple fund sources
- Indirect
 - Overhead


Cost Objectives

- Intermediate
 - Cost pools or cost centers
 - Final
 - Funding source
 - Cost category
- 


Treatment of Costs

- Consistent treatment
 - In accounting system
 - Over time
 - Measuring benefit
 - Critical requirement of cost allocation
 - Benefit determines allocation
- 

Cost Pools

- Actual costs only
 - Any combination of like costs
 - Types of pools
 - Administrative cost pools
 - Operating costs
 - Facilities or maintenance
- 


Managing Pools

- Distribution based on formulas
 - Formulas are allocation bases
 - Vary by type of pool
 - Liquidated for reporting
- 


Allocation Bases

- Fair basis
- Minimal distortion
- Actual effort or cost
- General acceptability
- Timely control
- Variations in funding/costs
- Materiality, cost and practicality of use

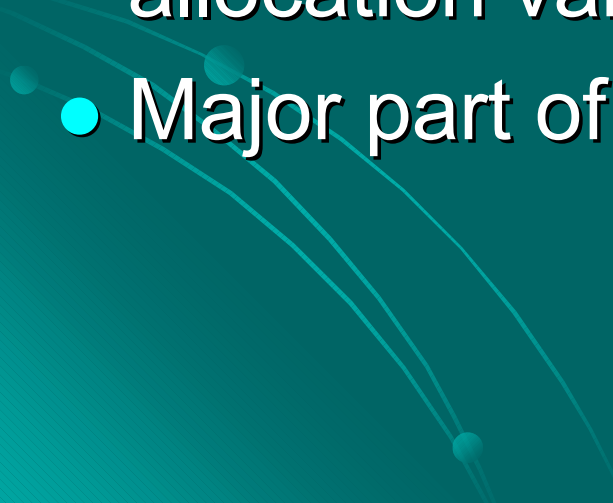
Using Inputs

- Resources used
 - Traditional method of allocation
 - Allocated at time of cost incurred
 - Documentation of use and variances
- 

Commonly Used Bases

- Staff time – time sheets
 - Facilities – space usage
 - Accounting services – # of transactions
 - Equipment – Usage or machine hours
- 

Allocating Personnel Services

- Based on documented & approved payrolls
 - Supported by time distribution system
 - Method of allocation & support for allocation varies
 - Major part of allocated costs
- 


Time Distribution

- Time & attendance records
 - Various methods
- Time sampling methods
 - Cognizant agency approval
- Measurable work outputs
- Use also for allocating non-personnel costs

Output Based Allocation

- Centralized Intake
 - Number of participants
- Job Placement
 - Number of placements made
- Administration (no outputs)
 - % of program expenditures
 - Number of program outputs


Output Based Requirements

- Design program approach
 - Verify equitable benefit
 - Track & report results
 - Adjust for variances
- 

Unacceptable Allocation Bases

- Fails to meet standards
- Distorts final results
- No direct relationship to costs
- Developed from plans, budgets or estimates
- Allocation must result in **EQUITABLE** distribution of costs


Cost Allocation Plans

- Written documentation of
 - Direct and allocated costs
 - Allocation methods used
 - Supported by formal accounting records
 - Signed by authorized agency official
- 


Types of CAP's

- Indirect Cost Plan
 - Addressed in Circulars
 - Federal Agency approval
- Cost Allocation Plan of the Organization
 - Shared indirect costs
 - Awarding agency approval

CAP Elements

- Background & mission statement
 - Organizational chart
 - Financial statements & budgets
 - Description of pooled or joint costs
 - Methods used to allocated costs
 - Certification
- 

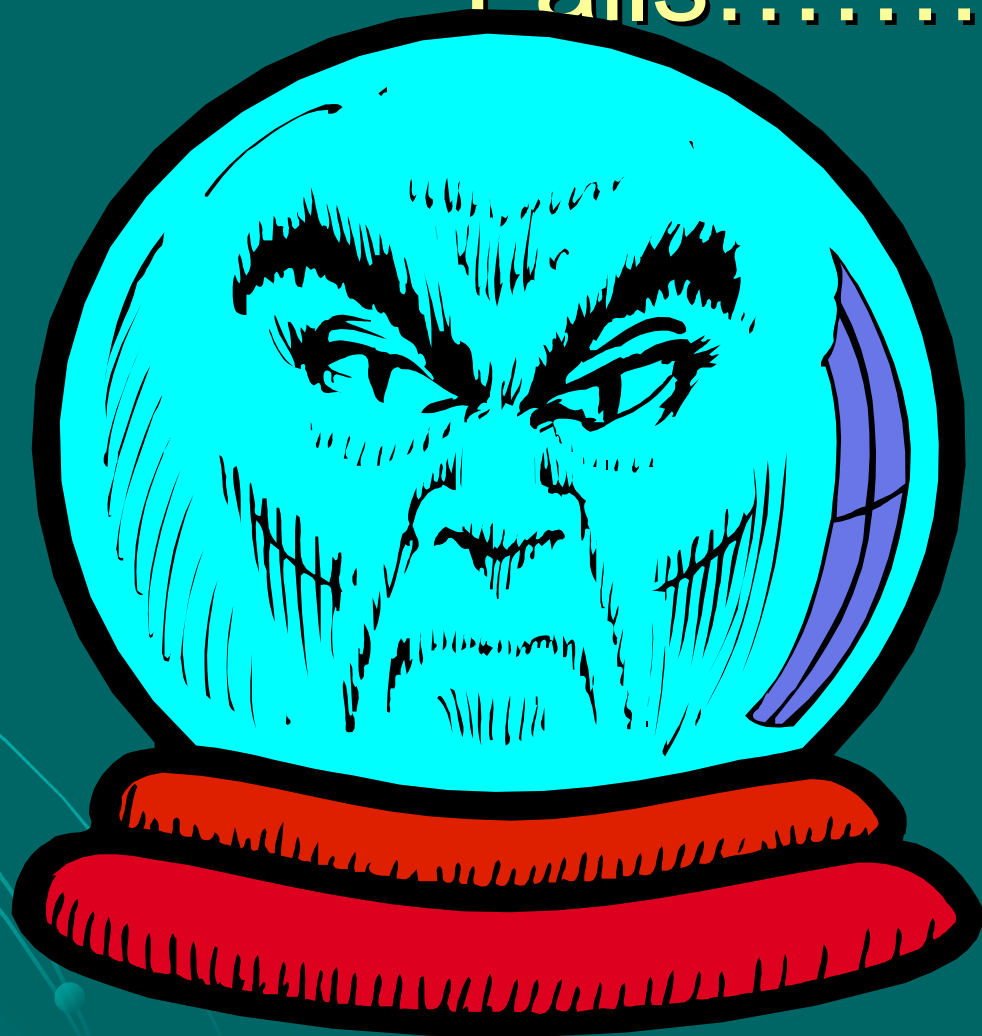
Keep in Mind...

- Simple
 - Replicable
 - Organizational Structure
 - Structure & capabilities
 - Prudent changes
- 

Benefits of a CAP

- Management tool
- Equitable sharing of costs
- Establishes financial management standards
- Meets cost principles and standards
- Eliminates arbitrary methods of charging costs
- Standardizes financial practices

When All Else Fails.....



What is an Indirect Cost Rate? (ICR)

The ratio, expressed as a percentage, of an indirect cost pool and some direct cost base.

PBR (Pabst Blue Ribbon)



Pool/Base=Rate

Indirect Cost Rate

- Example:

Indirect Cost Pool = \$ 10,000

Distribution Base = \$100,000

(Salaries & Benefits)

Indirect Cost Rate = 10%

Who needs an approved indirect cost rate?

\$Single Funding Source

Indirect cost rate not needed

\$\$\$Multiple Funding Sources

Indirect cost rate needed

NO APPROVED ICR??

- Must seek approval within 90 days of grant approval
- Where?
 - Cognizant Agency (determined based on Fed. Agency providing largest amount of direct Fed. Funds)
 - If grant is only Federal award, DOL is cognizant

QUESTIONS ???

- Department of Labor
- Office of Cost Determination
- Telephone: 202-693-4100
- *“A Guide for Indirect Cost Rate Determination”*
- *<http://www.dol.gov/oasam/programs/boc/ocd-guide-main.htm>*

Most Common Types of Indirect Cost Rates



Billing Rate

- Rate stated in the award to allow recovery of indirect costs until an indirect cost proposal is completed and submitted.
- Normally only valid for 90 days.

Provisional Rate

- A rate based on projected information, historical information, or a combination of the two for the organization's fiscal year
- This rate allows for recovery of indirect costs during the contract/grant period until the rate can be finalized

Final Rate

- The experienced indirect cost rate based on actual data for the organization's fiscal year
- All provisional indirect cost rates must eventually be "finalized"

Questions?

