



BEING DIRECT

Shared Cost Recovery through
Direct Cost Allocation



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November 15, 2023





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- Cost Allocation Toolkit
- Walk Through
 - Cost Recovery Options and Deciding to Recover Shared Costs via Direct Allocation
 - How to Recover Shared Costs via Direct Allocation
 - Requirements of a Cost Allocation Plan for Shared Costs
 - Common Allowable Methods of Cost Allocation
 - Sample Cost Allocation Plan

Cost Allocation Toolkit Overview

Being Direct: Shared Cost Recovery through Direct Cost Allocation



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Introduction

Somewhere in America, a small community action agency (CAA) employs an executive director. She oversees the organization and performs various tasks at different times for the three programs that the agency provides to the community. Each program is funded by different federal and state funding sources, and the levels of funding provided fluctuate from year to year. The time she dedicates to each program varies from week to week. She also supports the agency's board of directors, oversees its financial management, and develops the new organization-wide strategic plan, all to the benefit of the entire agency. The CAA rents office space, leases a vehicle, and purchases office equipment and supplies that staff use for each program. As a small agency, the CAA seeks to operate efficiently and to stretch each dollar as far as possible to better serve its community. To do so, it must recover not only those costs that are easy to identify with a specific funding source but also those that are not as easily identifiable, i.e., shared costs. These are the costs, like those associated with the executive director role, that span multiple programs and funding awards, and for which the benefits each program or award receives from them is difficult to discern. How then does a CAA accurately and fairly allocate these shared costs?

The shared cost recovery conundrum is one that all federally funded organizations wrestle with. It's also one that has more than one allowable answer. Depending on an organization's size, resources, experience, staffing, or preference, the method it chooses to recover shared costs may vary. This resource explores one of those options for an organization's shared cost recovery: direct cost allocation.

Direct cost allocation is the process of assigning a cost incurred to a cost objective (a grouping of costs related to achieving a specific purpose) so that it may be tracked and charged to the organization's funding awards. Decisions around cost allocation and the processes involved in doing it correctly are far from simple. For many organizations, cost allocation remains a source of great confusion and complexity given how they incur costs, the number of funding awards they typically receive, and the rules that apply related to proper accounting and allowability.

- Available in CAPLAW's Resource Library
- Replaces 2011 resource
- Based on OMB Uniform Guidance
- Includes Common Allowable Allocation Methods, Examples, and Sample Cost Allocation Plan

Cost Allocation Toolkit Overview

Based on the Uniform Guidance

- Main legal framework for cost recovery options
- Not so “uniform”
 - OMB codification at 2 C.F.R. Part 200
 - Toolkit references this version
 - HHS codification at 45 C.F.R. Part 75
- OMB has proposed changes to 2 C.F.R. Part 200
 - Accepting public comments until December 4, 2023



Cost Recovery Options and Deciding to Recover Shared Costs via Direct Allocation

Cost Recovery Options

For Shared Costs

- **Shared costs** are costs incurred by an organization that benefit multiple cost objectives (i.e., program, activity, or award)
- Four ways to recover shared costs:
 1. Direct cost allocation
 2. Negotiate indirect cost rate with federal agency
 3. Negotiate indirect cost rate with a pass-through entity
 4. Elect to use the de minimis rate (10% of modified total direct costs (MTDC))

Deciding to Directly Allocate

Common Factors Organizations Weigh

- Frequency of funding award changes
- Availability of negotiated indirect cost rate
- Fiscal capacity of organization
- Acceptance and predictability of organization's approach
- Level of shared cost recovery

These are common considerations, but each organization must decide what's best for itself.



How to Recover Shared Costs via Direct Allocation

How to Directly Allocate Shared Costs

- Develop written **cost allocation plan**
 - Methods organization will use to allocate
 - Describes how organization will equitably apportion shared costs that benefit the entire organization to each award
- Identify **cost objectives** (aka center of costs/cost center)
 - Can be program, function, activity, award, etc.
 - Organization decides how to define its cost objectives

How to Directly Allocate Shared Costs

Typically **two ways** to structure cost objective system

1. Functional cost objectives

- Major programs and functions
 - Use sub-cost centers or funding source codes to track costs to each award
 - Admin/management, Fundraising are separate cost objectives

2. Funding award cost objectives

- Correspond to funding awards received
 - Admin/management costs allocated either to each award cost objective or into separate combined cost objective
 - Unallowable costs (e.g., fundraising) require separate cost objective

How to Directly Allocate Shared Costs

Administrative/Management Costs

- May be recovered either through direct charging through cost allocation or as part of indirect cost rate
- Core Admin/Management Functions
 - Board support
 - Financial management
 - HR management
 - IT management

How to Directly Allocate Shared Costs

Administrative/Management Costs

- May benefit **entire organization** or **specific cost center**

ORGANIZATION WIDE	SPECIFIC COST CENTER
<ul style="list-style-type: none">• Board support• General ledger accounting• Payroll• Financial reporting• Audit• Strategic plan development• Revising Employee Handbook	<ul style="list-style-type: none">• Tracking costs for specific project• 2 CFR 200.413(b) allows direct charging of admin costs associated with specific project

How to Directly Allocate Shared Costs

4 Ways to Recover Admin & Indirect Costs

- All require use of cost allocation methods

		Indirect Cost Rates	
Direct Charge Allocated Costs	10% de minimis	Federal NICR	Pass-through NICR

- All 4 methods require distinguishing costs **directly attributable to specific cost objective** from **costs that benefit more than one cost objective**

How to Directly Allocate Shared Costs

Administrative/Management Costs

Direct Charge - Cost Allocation

- Allocates individual cost items based on estimated benefit provided to each cost center
- May use different estimating methods for different types of costs
- Must justify methods
- Requires cost allocation plan
- Results in direct charging of allocated costs

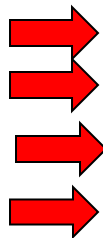
Indirect Cost Rate

- Distinguishes indirect from direct costs
- Computes % that indirect costs comprise of a base of direct costs
- Applies that % to the base of direct costs in each cost objective

How to Directly Allocate Shared Costs



	Prog 3	Prog 2	Prog 1	Shared	Total
Total Direct Costs	2 Million	1 Million	100,000		3.1 Million
Rent				60,000	60,000
Audit				20,000	20,000
Maintenance Staff				60,000	60,000
Utilities				10,000	10,000
TOTAL	2 Million	1 Million	500,000	150,000	3,250,000



	Prog 3	Prog 2	Prog 1	Shared	Total
Total Direct Costs	2 Million	1 Million	100,000		3.1 Million
Rent	39,000	19,200	1,800	0	60,000
Audit	13,000	6,400	600	0	20,000
Maintenance staff	39,000	19,200	1,800	0	60,000
Utilities	6,500	3,200	300	0	10,000
TOTAL	2,097,500	1,048,000	10,500	0	3,250,000

How to Directly Allocate Shared Costs

- Sign and date final cost allocation plan
 - Include effective date
 - Keep on file at organization
- Not required to submit to federal funders
 - But consider proactive approach of sharing methodologies to identify potential problems



Requirements of a Cost Allocation Plan for Shared Costs

Requirements of Cost Allocation Plan

Direct Cost Allocation Principles

- Allocate shared costs to each cost objective according to, either:
 - **Proportional benefit** the cost objective receives from the cost
 - When benefit can be determined without undue effort or cost
 - **Any reasonable documented basis**
 - When benefit cannot be determined because of the interrelationship of the work involved, organizations can still reasonably determine benefit and allocate accordingly

2 C.F.R. § F.R. § 200.405(d)

Requirements of Cost Allocation Plan

Reasonable Documented Basis

- When considering reasonableness, consider:
 - Time, resources, effort, cost of the method of allocation
- Document basis used to allocate costs
 - Cost allocation plan that includes cost objectives and methods
- Apply allocation methods consistently! (but may use different methods to allocate different types of costs)
 - ex. An organization cannot allocate costs for a shared office space using the square footage method one month, and the full-time equivalent method the next month.



Common Allowable Methods

Common Allowable Methods

Full-Time Equivalent (FTE)

- Allocate based on percentage of total staff time devoted to each cost objective
- Charge awards for the time employees spend benefiting it
- Employees **track and submit reports** on the amount of time they devote to different cost centers

Common Allowable Methods

Full-Time Equivalent (FTE)

Example: Best CAA

- Employees track/submit time devoted to different programs; full-time employee = 40 hours/week
- At end a week, total of all hours worked for Program A was 80 hours, or 2 FTEs
- Employees devoted 160 hours, or 4 FTE positions (160 hours/40 hours) to Program B
- Based on the percentage total of 6 FTEs, Best CAA estimates that Program B has received twice as much benefit ($4 \text{ FTEs} / 6 \text{ FTEs} = 66\%$) from the use of the telephone system or reception function as Program A ($2 \text{ FTEs} / 6 \text{ FTEs} = 33\%$)
- Program B should be charged twice as large a share of the cost of the telephone system and reception function

Common Allowable Methods

Units of Service

- Allocate based on number of units of service delivered
- Must track actual number of transactions involved in a service, not planned or budgeted percentages
 - ex. Number of IT “tickets”
- **Challenges:** nature/duration of services provided may vary
 - Service for some programs may take hours while others may take days

Common Allowable Methods

Units of Service

Example: Best CAA

- Client intake center provides info/intake services to community on all programs
- Center staff track new applicants and enrollees for programs in a database
- Allocates intake staff costs each month using # of new enrollees in database for that month for each program
- New Enrollees/Month: Program A: 10, Program B: 10, Program C: 20
- Benefit received/Month: Program A: 25%, Program B: 25%, Program C: 50%
- Allocate month's call center costs based on percentages to each program

Common Allowable Methods

Square Footage

- Common method for shared facilities costs
 - e.g., Rent, Utilities, Janitorial Services
- Divide each cost objectives square footage use by total square footage in facility
 - Exclude common space; benefit of common space to awards will align with each program's percentage of square footage used
- Must be actual square footage used, not budgeted use
- **Challenges:** frequent shifts in use of space; staff turnover; program staff working on multiple programs

Common Allowable Methods

Square Footage

Example: Best CAA

- CAA facility is 10,000 square feet. Program A: 2,000 sq. ft, Program B: 5,000 sq. ft., Common space: 2,000 sq. ft., Agencywide admin: 1,000 sq. ft.
- Exclude common space to determine benefit: Program A: $2,000/8,000=25\%$, Program B: $5,000/8,000=62.5\%$, Admin: $1,000/8,000=12.5\%$
- Use percentages to allocate facility costs, including common space



Sample Cost Allocation Plan

Sample Cost Allocation Plan

This Sample Cost Allocation Plan was developed by Kay Sohl Consulting. It is an example of how an organization may structure its plan to allocate costs directly. The language and methods contained herein are illustrative, and each organization reviewing this Sample should use it to help inform the development of its own cost allocation plan. Each organization must make its own decisions about how to allocate costs, including how to define its cost objectives and what are its reasonable bases for allocating shared costs. This Sample includes highlighted text in brackets to help clarify and explain where decisions by different organizations may vary.

SAMPLE COST ALLOCATION PLAN Date adopted

SAMPLE is a 501(c)(3) non-profit corporation. SAMPLE administers grants in compliance with Federal regulations listed in 2 C.F.R. Part 200 "Uniform Guidance". SAMPLE is a multi-funded organization operating numerous public and privately funded programs.

This Cost Allocation Plan describes the methods which SAMPLE uses to allocate costs which benefit multiple cost objectives (programs, projects, grants, and contracts) in accordance with 2 C.F.R. § 200.405(d). The Plan also describes the methods SAMPLE utilizes to ensure that costs which benefit a single cost objective are charged appropriately to that cost center. In compliance with 2 C.F.R. § 200.405(d), the Cost Allocation Plan describes the methods SAMPLE utilizes to allocate and charge allowable costs which benefit more than one cost center or cost objective to federal and state grants. It also describes the methods used to determine the allowability of all costs and ensure that only allowable costs are charged to federal, state, or other governmental awards.

SAMPLE's use of this Cost Allocation Plan is based on the requirements of 2 C.F.R. § 200.405(d) to establish the reasonable bases and methods used for recovering costs by allocating them fairly and directly charging them to cost centers (programs, projects, awards) that benefit from the cost. The Plan does not involve the use of an Indirect Cost Rate and consequently is not subject to the requirements specified in Appendix IV to Part 200 - Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations.

Attachments to the Plan include information useful in understanding SAMPLE's current programs, funding sources, and services, current administrative organization, and current organization-wide budget. Attachments include:

Attachment 1: SAMPLE current Programs, Funding Sources, and Services
Attachment 2: SAMPLE current Administrative Organization Chart

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SAMPLE Cost Allocation Plan
Approved by Board DATE

- Developed by Kay Sohl Consulting
- Illustrative example
- Includes highlighted text and brackets to explain and clarify potential decisions
- Don't just take it and adopt it

Questions?

This training is part of the Community Services Block Grant (CSBG) Legal Training and Technical Assistance (T/TA) Center. It was created by Community Action Program Legal Services, Inc. (CAPLAW) in the performance of the U.S. Department of Health and Human Services, Administration for Children and Families, Office of Community Services Cooperative Agreement – Grant Award Number Award Number 90ET0505-01.

Any opinion, findings, and conclusions, or recommendations expressed in this material are those of the author(s) and do not necessarily reflect the views of the U.S. Department of Health and Human Services, Administration for Children and Families.