Being Direct: Shared Cost Recovery through Direct Cost Allocation

Date: November 15, 2023
Time: 1:00 - 2:00 PM EST

[Jonathan Cohen, CAPLAW]
I'm an attorney with CAPLAW. Kay Sohl is here as well to talk about the resource. Kay Sohl is based out of the West Coast, out of the Seattle area, I believe. And we're on the East Coast out of Boston, the Boston area. So we're on opposite ends of the country, but hopefully, going to be here providing you with some helpful information today about cost allocation.

And so really I wanted to just sort of jump into the topic of today's webinar. There are pictures so you can see us up close. And just walk through the agenda for you of what we'll be going over. Hopefully you all have seen or downloaded, and maybe even read, the cost allocation toolkit or resource that we will be referring to today. If not, it is available on CAPLAW's website, caplaw.org/resources. That's our resources page.

We will essentially be presenting the cost allocation toolkit, explaining what it is, where it can be found, how to use it today, during the webinar. We also, you know, don't want to miss the opportunity to talk about actually how you go about allocating or directly allocating shared costs. And so we're going to be walking through the sections that are included in the resource and really getting into some of the content there as well, so that we can communicate that as well.

And here are the things we'll be basically talking about. Throughout the hour, you'll see cost recovery options. So what cost recovery options are there for your agency for shared costs? We'll be doing a quick overview of that. And some factors and considerations to weigh when you're deciding as an agency, how you want to go about recovering shared costs. And if you want to go about recovering them via direct allocation and what some of those considerations are.

We are talking about how to recover shared costs by direct allocation, what that looks like, what it looks like those set up your cost objectives that your agency has the options for doing that. And then how you do things to come up with reasonable documented bases for allocating shared costs, and requirements with cost allocation plan for shared costs. We'll talk about some of those in the session. And then similar to what we do in the resource toolkit as well, we'll be going through some common allowable methods of cost allocation, so you can see how it will look. We'll provide you with some examples, as well, that are taken by and large from the resource itself. And we'll be working through that so you can hopefully see how these things play out in practice.

And then, in the resource, there was a sample cost allocation plan as well. We'll talk a bit about that and how to take that back to your agencies and look at it and take things from it if you have interest in that as well. As I mentioned, we're going to be trading off a bit — Kay and I — throughout the course of the presentation, and please do remember to type those questions into the chat when you have them. And so we'll be we'll be monitoring that.

And so, Kay, anything to add at the outset before we get started?

[Kay Sohl, Kay Sohl Consulting]
No, I live in Portland, Oregon, not Seattle. It's all a big blur to people on the East Coast, it's fine. Looking forward to this.

[Jon]
My mistake, yes, yes, us too. Thank you very much. So, let's get started. Really, I wanted to show you quickly what the cost allocation toolkit looks like. Here's an overview of what it looks like. Here's the first page essentially as an image on this slide. As I mentioned, it's available in CAPLAW's Resources Library. If you go to our Resource Library on our webpage, it is one of the featured resources there. And so it should be front and center there on the website, easily downloadable, easily taken back and read at your organizations as well.

The table of contents, the sections of the resource really do mirror what we'll be talking about today, and the order of how we're talking about them. But just so you can see there, the Table of Contents, as well. And so this resource actually replaces a 2011 resource that CAPLAW released with also the assistance of Kay at that time. As many of you probably know there's been some adoptions of different regulations, including what we know as the Uniform Guidance, which really does have an impact on cost allocation. And so when we were looking at this, we thought, well, you know, it's been 11-12 years since that resource was released, it'd be time to come out with a new one. And so that's what we've done.

It is based on OMB version of the Uniform Guidance. So the Uniform Guidance, for those of you who might be unaware, is short for Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. It's really the regulations and rules by which federal grant recipients administer, and sort of oversee their federal funding. And so very important for something like cost allocation to know what it says about it. And we'll be talking about that. We'll be referencing that throughout the presentation, as well.

As you can see, we just wanted to include a few examples of some of the sections, talk about a little bit in the agenda. But the resource does include those common allocation methods, we'll be talking about those towards the latter end of the presentation, those examples I mentioned. So we wanted to come up with some actually practical examples to help guide agencies really, and what this looks like and what these methods and concepts look like in practice for cost allocation. So that's there too. Sample cost allocation plan, as I mentioned, is in the resource as well.

The Uniform Guidance, I wanted to do a quick overview of that. As I mentioned, a main legal framework for cost recovery options, we'll be talking about the cost recovery options in a moment. But really, when you're thinking about things like administration of federal funding awards, cost — what's allowable in terms of what you can spend your federal funding on — what are the audit requirements with regard to the funding that you receive from federal sources, you're really looking at the Uniform Guidance, adopted in 2015, to serve as really a set of regulations that was consistent — uniform, that's where we see the name uniform from — across the board for federal funding to really help those recipients and subrecipients with that administration of those awards.

It is called the Uniform Guidance, however, we wanted to alert you to the fact that unfortunately, it's not so uniform, as it turns out, and I'll explain that shortly. The Office of Management and Budget codification, which is really the codification of the Uniform Guidance that the resource itself is based on — that the resource itself references — it's really the most up to date version of the Uniform Guidance that that lives basically at 2 C.F.R. Part 200. And so you see the citation there. That is, again, the most recent version and includes all the updates that have happened since 2015 that have been adopted by OMB.

However, you should be aware, and I think I'm guessing many here are from Community Action Agencies who receive CSBG funding, may receive Head Start funding, which of course comes from HHS. HHS actually codified a separate version of the Uniform Guidance, and that is at 45 C.F.R. Part 75. So for HHS funding, HHS funding is governed by that version of the Uniform Guidance. And unfortunately, it is not completely uniform, not completely the same as the version at 2 C.F.R. Part 200. It doesn't include some updates that were made in 2020, for example, to 2 C.F.R. Part 200. So you just need to be aware of that when you're looking at the requirements related to your various awards: What is the federal funding awarding agency? What version of the Uniform Guidance do they subscribe to? And just be aware of that because, while very similar, not every version contains the most recent update to that.

However, with that out of the way, I wanted to mention that we do reference and base this toolkit on the most recent version of 2 C.F.R. Part 200. I also wanted to mention, of course, you know, a month after we came out with this resource, OMB proposed new changes to 2 C.F.R. Part 200. It is currently — that was published in the in the Federal Register as proposed changes to Uniform Guidance, the proposed rule. They're accepting public comments at this time, they're accepting those until December 4, 2023. Nothing's effective yet, but presumably, they will take those comments into consideration under advisement, whatever they receive. And then at some point, in the next month, a couple months — not sure exactly how long it will take — presumably they'll be issuing a final rule that will incorporate the final changes that they make to the Uniform Guidance. And so stay tuned for that. CAPLAW released a press release, or a news alert about an overview of some of those changes a few weeks back, so hopefully you received that and know of that. And we will be holding a webinar, actually on November 28 at 1pm, on those proposed changes. And so you should expect to see if you do subscribe to our mailing list, notification of that as well, and a registration link for that. So be aware of that, too.

So that's the Uniform Guidance. Again, not so uniform, but there it is. So I wanted to really dive into some of the things that we include in the toolkit and the resource. And Kay and I wanted to talk about a lot of that content that is in there, and really walk through the resource in that way. Because you know, as an attorney — and Kay, as a financial professional, and consultant — you know, never miss an opportunity to really dive into the content and provide whatever information we can about these issues.

And so the first thing that we want to talk about, and I do see there's a question in the in the chat about the slide deck, the slide deck will be available along with the recording at a later date, so don't worry about that. But here's the first section that we wanted to talk about - the cost recovery options, and deciding to recover shared costs via direct allocation. And so as you'll see in the resource, when all of you go out and read it or, as you have seen, if you have already read it, this is really about your options for recovering what we call shared costs. And so shared costs when we think about shared costs — and the resource itself references shared costs quite a bit — these are costs incurred by an organization that benefit multiple cost objectives. And the way I think about cost objectives, and I think Kay will get into this in a bit more detail in a few slides, is really a grouping of costs. So grouping it by program, by activity by award. A cost bucket, some people also call it. And so you're essentially grouping those types of costs together into different cost objectives. And some of those costs that you have may benefit multiple cost objectives. And so really the principle, one of the main principles of cost allocation is allocating costs to those awards that benefit from those costs.

So an example is maybe an employee who works in multiple programs, or works on multiple programs. The cost of that employee, so the salary, the benefits of that employee, must be allocated to those different programs that actually the employee benefits. And so how does an agency go about doing that? Well, there are options that it can elect to use to allocate the shared cost of, for example, that employee. There are really four ways I think, to recover shared costs under the Uniform Guidance. And this is how we look at it.

One, of course, the subject of the resource, why you're all here. We've talked about direct cost allocation, and we'll be talking, you know, mostly exclusively about this in the rest of the presentation. But I did want to lay out those other three ways that that agencies can choose to recover those shared costs. And you've probably all heard about these but wanted to give a quick refresher, just so you know, and it will provide some context for really making that decision about how you want to recover share costs. One is through a federally negotiated, negotiated indirect cost rate. And so a federally negotiated indirect cost rate. This is available to those agencies who receive direct federal funding. So for example, Head Start as a direct award received from HHS, those entities are eligible to negotiate an indirect cost rate with their, what is called their cognizant federal agency, or typically the federal agency from which they received the most funding. And so there's a whole sort of calculation process that goes into figuring out that, what that negotiated indirect cost rate will be. You pool your indirect costs together as the numerator, and then you have a direct cost base as your denominator. And essentially, that calculation turns out to be a negotiated indirect cost rate, which you can then charge to your awards. Federally negotiated indirect cost rates must be accepted, once you have one, it must be accepted by all federal agencies, by all pass through entities as well. That is in the Uniform Guidance. And so we'll be talking a little bit about that in the next slide, when we talk about, you know, deciding whether to use it. But that is another feature of negotiated federally negotiated indirect cost rate.

So if you're an agency that maybe doesn't receive direct federal funding, you can perhaps negotiate an indirect cost rate with a pass-through entity. I think that's a very rare occurrence from my understanding. So not often the case, many pass-through entities don't do it, don't necessarily engage in those types of negotiations. But just know, under the Uniform Guidance, at least, that is another option that is available to agencies for recovery of shared costs.

And then the last way to recover shared costs that you see there on the slide, agencies can elect to use what is known as the de minimis rate. And this is essentially 10% of a modified total direct cost base. Again, modified total direct costs is defined in the Uniform Guidance as well, essentially defining the types of direct costs that you can put into that into that base. And basically de minimis rate means you charge 10%, to your awards across the board for that. This is one of the proposed changes, I should say, in the Uniform Guidance, is raising the 10% to 15%. So just wanted to point that out as well. But these really are the four main ways - or the four ways I should say - to recover shared costs, and the options for agencies to do so.

If you're an agency out there, you may be thinking, "well, that's all great, how do I really decide how to do this? Do I want to directly allocate shared costs?" And there, as you'll see in the resource, there are a number of common factors that organizations do weigh when thinking about this and we want to present them here quickly, just so that you can see them, so you could understand sort of the context here, as well. You see here, the frequency. So one common factor is the frequency of funding award changes. So agencies that may add awards at different point times, terminate awards, agencies that do that on a more frequent basis, may think twice about direct cost allocation. Because cost allocation, you know, when you add or take away an award, you have to essentially recalculate the way that you're allocating, the formula whereby that you're using to cost allocate. And so if you're doing that a lot, if you're receiving new sources of funding a lot, you may think "well that's a little bit too much, I don't really want to engage in that type of, you know, constant reallocation, constantly changing my reallocation formulas." And so that could be a factor for your agencies. Alternatively, I should also mention organizations that have indirect cost rates are permitted to continue to use their approved indirect cost rates, even when they lose or gain awards. However, if they lose or gain to a significant degree, that's going to impact the final indirect cost rate that they can essentially charge their awards. And so at the end of their year, they may have to update the amount that they've charged to indirect costs through that rate, just because their rate essentially over the course of the year has changed based on the different types of funding they've received. And sort of an increase in in what I mentioned earlier, the denominator that's going into the into that base of costs that they're using to figure out that indirect cost rate. So that is a factor as well.

And something to consider is some of these factors actually may cut both ways. And so that could be one as well, that that agencies may say, "well, you know, frequency of funding or changes does sort of work both ways. But would I rather have to reallocate or re-formulate my allocation formula on an ongoing basis or the indirect cost rate. Would I just prefer to do that at the end of the year when I have that final rate?" Something to consider there.

Another common factor that organizations weigh is the availability, really, of a negotiated indirect cost rate. So as I mentioned on the prior slide, if an agency doesn't receive direct federal funding, then of course, it can't negotiate an indirect cost rate, whether it's federal funding, with a federal funder, and it can't receive a federally negotiated indirect cost rate. So if it's not available, then they may choose to directly allocate in that context, they may also choose to do the de minimis, that sort of goes to the to the last item, their level of shared cost recovery, which they may factor up, but I'll get to that in a second.

Fiscal capacity of an organization is something that that organizations definitely weigh when they're thinking about whether or not to directly allocate costs. Direct cost allocation does require significant ongoing investments, you're talking about investments of staff time, resources to really perform those tasks that are necessary to track your allocations and your expenses, your cost and things like that. You may be managing, developing multiple cost allocation methods in that process. And so that could be a heavy lift for some organizations. And so keep that in mind - physical capacities, doesn't come into play. I should also mention, again, to further confuse things, and for those issues that cut both ways, it does take fiscal capacity to negotiate an indirect cost rate as well, especially up front. That takes time resources as well, again some organizations may prefer to do that upfront, rather than then sort of continuously engage in sort of changes to allocation, formulas, things like that. But again, that's really, I think, an organizational decision as well.

Acceptance and predictability of an organization's approach. So under the Uniform Guidance, federally, as I mentioned, a federally negotiated indirect cost rate must be honored by all federal agencies and pass-through entities. So of course, that can lead to more predictable cost recovery for organizations if they know that their indirect cost rate has to be honored by all those agencies. And so they may prefer that. There's really no similar requirement. So there's no similar requirement for cost allocation plans. And some funding sources may actually question the different methods that are used to allocate costs. And so there could be a lot of unpredictability with regard to that, depending on how organizations go about doing that. For example, there's some disagreements, and I think we'll get into this a little bit with Kay, but some disagreements about the proper way to recover agencywide administrative costs. And so there can be disagreements between awarding agencies who may disagree on the proper way to go about doing that.

And so that's just an example of how that unpredictability can look. And so organizations may prefer the predictability of an indirect cost rate if they can get it. And then finally, level of shared cost recovery here. Essentially, this involves the organization just sitting down and doing the math and determining which method or which way of cost recovery can recover the most amount of costs. I think this is harder to do when you're comparing direct costs, cost allocation, with a federally negotiated indirect cost rate, because you don't necessarily know the base that you're going to try to recover from and what that indirect cost rate looks like as a result of that. And it's harder to project. I think, if you're comparing direct cost allocation against something like the de minimis rate, then I think that is that is something that you can sit down, you know, your fiscal department can sit down and work out, really the levels of cost recovery that you can do with each and where you project you can you can recover more costs there. Again, these are common considerations, but each organization I think, must, must engage in analysis for itself, about what's best for itself. And some of these factors may weigh more heavily than others when you're sitting down and talking about it at your agencies. And so, I just wanted to present some of those here. There's more details on these as well as the options for cost recovery in the resource itself. So keep that in mind as well.

So I think I'm going to turn over to Kay now.

[Kay]
Okay well, and we've had some really interesting questions come in in the chat, and I'm going to incorporate that in what I say in some ways, and in some ways, we're going to have to say, that may be a follow up question. The key thing here that we want to talk about is how do you actually use cost allocation to recover your costs? And when we use that term recover, we mean how are we able to charge them to our federal awards and actually get them to be considered allowable costs. That's what we're after. And the core requirement that is in the Uniform Guidance is that if you are going to do cost allocation, you must have a written cost allocation plan. And that's critical. Because even if you have decided to use the de minimis rate, or you're negotiating a federal indirect cost rate, you are still going to need to have this written cost allocation plan that explains your approach to allocating costs that benefit more than one cost objective, and that could be a program or an award.

So you're going to write out this document that explains which methods will be used for which types of costs. And one of the questions that came in earlier was "well, can I have different methods?" Yes, you can use different methods for different types of costs. But what you can't do is use different methods for the same type of costs. So for example, we saw a question about, "well, could I use cost allocation as a method to recover some of my agencywide administrative costs on some awards? And then turn around and use an indirect cost rate or the de minimis rate on other awards?" And the answer to that question is probably not. Because the core concept of cost allocation depends on consistency, that we're going to do the same thing across all of our different cost centers. And I'm going to come back to some of the frustrations that people have. And we just saw rollout in the questions about being told different things by different funding sources. But for now, we're going to talk about the way it's supposed to be, and then we can talk about how sometimes it gets confused or misinterpreted by different funding sources.

So what you're going to do in this written plan document, and I'll just preview that one of the useful things in the guide is not only what has to be in the plan, but an actual template for you to develop a plan. So you're going to be describing your methods. And the important thing to understand is that this concept of cost allocation applies both to some costs that have nothing to do with administration, nothing to do with agencywide administration. You know, classic example is we have one employee, they're a driver, they drive for Head Start in the morning and Senior Services in the afternoon.

Yes, we are going to have to allocate the cost of that employee between those two cost centers. And we're going to have to do it in the methods that we said we would in our cost allocation plan. That's the easy part of this. The hard part is what are we going to do about our agencywide administrative costs. And that's where those of us who have chosen to use the de minimis, the 10% rate right now have said, "well, I just don't want to argue about how to allocate them, I'm just going to charge that 10% rate." And those that have a negotiated indirect cost rate have already been through it with our federal cognizant agency to come up with a fair way to use a percentage to charge those agencywide admin costs. But for the rest of us, those of us not using the de minimis rate, not having a negotiated rate, we are going to have to have a cost allocation plan that explains how we are going to fairly allocate the cost of agencywide management.

So the starting point for this cost allocation plan is we have to decide how we're going to define cost objective. And the Uniform Guidance says that it is up to us as the grant recipient to define cost objective, and we have a choice between programs or functions or activities, or awards. Now, you know, programs and functions – that's what you see on your 990 where you see the admin function, the fundraising function, and the program function, and your statement of functional expenses. So programs would be one way, in community action, it's probably more common to see award used as the cost center and the cost objective. It matters because the way your cost allocation plan operates is going to be different depending on how you defined cost objective. Now we have a little discussion of that in the guide and it's a big topic, and we're probably not going to go through it all today.

So let's go to the next slide. And, you know, this is sort of how you would weigh the choice between "do I want to use a functional cost objective system focusing on cost centers that are defined by programs or functions, or do I want to use a funding award cost objective system?" Now, you know the way I usually can explain what's the difference, many of us have homeless service centers that we're operating. And we might have 10 or 15 different awards that are funding the activity in that homeless service center. And so how we could see our choice in defining cost objective would be whether we say the cost objective is program, it's the homeless service center, our homeless services, or whether we would say the cost objective is the individual grants. Now, because whichever method we choose is going to govern how we have to justify the allocation of costs, one of the benefits of going to a functional method is you have a little more flexibility when you have some funding sources that have an absolute limit on certain types of costs. And, you know, when you read the Uniform Guidance, you realize that there are some funding sources that have a statutory limit on administrative cost. And if you are doing funding source as your cost objective, if you're doing your allocation directly to funding sources, you're going to come into one of those funding sources with a cap like a 5% cap, and that's all they will pay. But that's not all you're going to need to charge to that cost center. Because the core of a cost allocation plan is consistency. So whatever method you're using to charge costs to all cost objectives, you can't make exceptions, based on the fact "Well, this funder won't pay that amount," it has to be fairly allocated.

So that's why we really, we certainly emphasize in the guide, really think through the structure of your cost objectives, because you might get more flexibility in a functional structure. But one thing to keep in mind is down there under number two, is regardless of which structure you've chosen, it is always true, that if you have some funds that you're using that maybe have nothing to do with federal funding, maybe they're private funds from a foundation or from fundraising, those funds that you're using, they have to get their fair share of allocated costs too and you cannot say, "Well, you know, that foundation doesn't fund administrative costs." They have to get a fair share, and you have to figure out how you're going to pay for it if a particular funding source won't. Well, let's go to the next slide.

Okay, this is the crux of what makes this so difficult. I mean, you know, my example of the driver that drives for Head Start in the morning and the senior center in the afternoon, that is really obvious what to do about that. And actually, it's pretty obvious what to do about having a facility that might have a Head Start classroom and a senior center. And if we come up with a fair way to estimate the benefit, that each of those programs that benefit from that cost, like benefit from the heat in that building, we come up with a fair way to estimate the benefit that they get. And that's how we allocate the costs.

Where it gets tough is when we're talking about administrative and management costs. Why is it tough? Well, I think it's because the whole world has become convinced that there's something wrong with administrative and management costs. And that's why we've got all these caps on them. That's why everybody worries about, you know, are you charging them correctly, but that's reality. And so you've got to find a way to recover – to be permitted to charge – portions of your agencywide admin or management costs to all of your federal awards. Otherwise, if you can't find a way to charge those costs to your awards, how are you going to pay for them? You're going to have to do a lot of fundraising to pay for them. So there are – as Jonathan mentioned – there are different ways that you are allowed to recover the fair share of your agencywide administrative and management costs on your federal awards. And it really comes down to: you can use these direct charging methods that we're talking about now through cost allocation, or you can recover them through an indirect cost rate, either the de minimis or one that you negotiated.

But probably before you worry about that, you're worried about, "well, what are these agencywide admin and management functions?" And typically, they are defined as the cost of supporting your board, you know, you got to organize those meetings and take care of the board process. Financial management, that's typically a major administrative cost. And it is your whole financial management system, your payroll, your general ledger. It's getting audits done. High level HR management, high level IT management. And we always remind people that we're not talking about if somebody fills out a form in an HR department – that doesn't make them in HR management. Somebody touches a computer – that doesn't put them in technology management. These are higher level administrative functions. And before we go to the next slide, I just want to point out that this definition of admin or management, yes, it definitely applies to those costs that benefit the entire agency. But there are some specific federal programs where it's necessary. There's so much administrative work to be done for that program, that sometimes it's necessary to create a whole position that only works in that one program. The common one is some sort of accounting clerk. So if you have an accounting clerk that only works in your weatherization program, yeah, that's a direct cost of weatherization. Just because it's accounting doesn't make it agencywide management. But if you have accountants in your central fiscal office, and they're processing the payroll, and doing all the accounting for the whole agency, that is what we're talking about, as agencywide admin and management costs. And we've got to figure out how you can charge them to your awards.

So let's take the next slide. Okay, so this is what we were just talking about. And you know, there's the list going down the left-hand side of the organization-wide admin costs, and then an example of this specific cost center. Now, honestly, if we didn't have so much angst about "are the admin costs too high?" probably nobody would break out those specific cost center admin costs. But because this is the subject of so many limitations, we do sometimes have to pay attention to certain administrative functions are performed only for certain programs. And we don't want to consider those as part of our agencywide admin costs.

Okay, let's go to the next slide. This is another illustration of what we've been talking about. And you may want to keep talking about it because it's so confusing, not just to us, it's confusing to our funders. And earlier, I saw some comments and questions coming in, that illustrates just how confusing this is to funders, because people were commenting that they were being told by their funders that they had to use a specific method to recover the fair share of their agencywide management costs. And some of them said they were told they had to use the de minimis, some of them were told that their federal negotiated indirect cost rate wasn't acceptable that they should go to direct charging.

Now, all of those, I would say are examples of a funding source that has a misunderstanding of what is in the uniform guidance, because the uniform guidance says that decision about how to recover agencywide management costs is the decision of the grantee. So now your funder certainly can tell you whether you are using the method correctly. For example, if you chose that you wanted to do cost allocation and direct charge your agencywide administrative costs – like in that green box – if that was your choice, no one can tell you that you have to use the de minimis or, you know, that you somehow have to magically get a federal rate. However, your funders can certainly tell you that they don't agree with your cost allocation plan, and they don't find it acceptable. And you're going to have to keep working with them until you have a plan that they do find acceptable. And that's the point Jonathan was making. And it's an unfortunate point in our system, but you may have two different funding streams that send two different monitors to your agency. And one may say your cost allocation plan is excellent, no problem. And the other may say no, we have problems with it. And that is a very challenging situation to be in.

But I think the important thing to understand about this whole realm of allocating shares cost is that anytime we're talking about a cost that benefits more than one cost objective - so more than one grant or more than one program - we are going to have to allocate that cost and allocate just means estimate the benefit that is received by the programs or awards that benefit from that cost. Pretty simple to do when it's just two programs sharing a facility or sharing an employee, challenging to do when we're going to try to recover our fair share of our agencywide admin costs. And it's going to be very frustrating when we're talking with a funding source that misunderstands what we're doing in the use of cost allocation plan, and says, "well, no, I read the uniform guidance. And I see all the ways that you're entitled to recover indirect costs, you know, the de minimis, pass through rate, and federal rate, and it doesn't say anything about what you're talking about." The answer is, that's because this isn't a different part of the Uniform Guidance, because when you're direct charging, it is not an indirect cost rate. And you cannot put it on a line on a form that says indirect costs, because it's not indirect, you're allocating and then making it be a direct cost after allocation.

Well, let's go to the next slide. So I just wanted to sort of emphasize the contrast between that green box and the three yellow boxes. And what it comes down to is that, if you're using direct charging, and you're going to be allocating individual cost items based on the benefit – your estimate of the benefit they provide to each cost center – you can use different methods for different types of costs. For example, a common decision is, "we have facilities cost, and we got this big facility, we got all these different programs and admin employees in there. And we're going to use percentage of square feet as the basis for allocating that facilities cost." That's not the only allowable way to allocate facilities cost, it's a common way. So we can do that. But then we may turn around and say, "but you know, when we're allocating agencywide administrative costs, we're not going to use square footage that would make any sense at all, we're going to base that on the percentage of full-time equivalent positions in each cost center." So we can use different methods, but we have to use them consistently for each type of costs. So I can't say, "well, you know, over here in this facility, I'm using square footage, but I've got another facility and I'm going to use FTE in there." That would be hard to justify, same type of cost, different allocation method. And remember, in your cost allocation plan, you are going to have to justify these methods. And you know, it's not a justification that, "this is the easiest thing I could come up with," or "this loads the costs onto the the source that is the most liberal in their interpretation," it has to be a justification based on some relationship between how you're estimating the benefit that the different programs or grants are receiving, and the method that you were using. And you're going to do that to do your allocation, determine what portion of the shared cost should go to each cost objective program or grant. And then once you do that, you're going to report that as a direct cost.

And that is very different than what happens when you're using an indirect cost rate. In an indirect cost rate – whether you're using the minimis or you've negotiated a rate – you're going to apply a percentage to whatever base you are using. The de minimis you have to use the modified total direct cost base. We do talk about that in the guide. And we can help you afterwards. I saw a question about what is it? It's the MTDC, the modified total direct cost base. If you're negotiating rate, you got other choices. But the important thing is that whatever base you use, you're going to get a percentage that you're entitled to apply to that and you're going to report it as indirect costs. There'll be a line item on your report and you're going to write down that is indirect costs. So it's quite different, the green and the yellow.

Okay, let's go to the next slide. Now, this is an illustration of: what are we really talking about when we say we're going to allocate shared costs and then charge them directly? And if you look at this chart, the first line is the total direct costs. So you can see I got three programs in this example, and I am then going to look at some specific costs. And I've got rent, I've got audit, maintenance staff, utilities. Now that's kind of a hodgepodge of some administrative costs, and some other types of costs. But the important piece here is I know what those costs are. And I know that I have to allocate them. I'm going to have to share them out among my cost objectives, in this case, the three programs. And so down there, where you see those red arrows on the left, that's what we've done. We've actually taken the rent, the audit, the maintenance staff, the utilities, all those shared costs. And we've applied an allocation method that was described in our cost allocation plan. And we've applied it to those different cost items, and listed them now as direct costs of program three, two, and one. So if you want to know what we're going to charge to program three, you're going to start with the 2 million in direct costs. And then you're going to add these allocated shares that came through our allocation plan to get to the total amount that we're going to charge to that funding source. And that is, you know, real life is more complicated than this example, but this is the basic premise that we're working on.

Okay, I know we need to keep going. So let's go to the next slide. And we'll say that the key thing about this is the cost allocation plan. You do have to sign and date it. You got to put an effective date on it, that's really important. And you've got to keep it on file. Now, the problem is all of us wish we could submit this cost allocation plan to some authority and get it approved. But in most cases that I've seen, we can't – no one will approve it, all they will do is come and monitor and either say, "well, we agree or we don't agree." So you're not required to submit it to federal funders. I think it's a great idea to show it to funders who are willing to review it. I'm not sure they're ever going to give you what you want, which is some kind of stamp of approval.

Okay, but let's keep going to the next slide. And I think we're just going to talk for a few minutes about what actually has to be in the cost allocation plan. And you know, you really just have to write this like you're talking to someone who knows nothing about this. You have to define for them: What is a direct cost? What do we consider to be a direct cost? What is a shared cost? What is the basic principle of proportional benefit that we should give fair shares to each cost objective? And then we want to know, what is our methodology that we're going to use? And the whole point of this, why are we doing this, is that there are many costs where it is not possible to directly determine how much benefit each of your cost centers get. So you have to have a reasonable way of estimating that benefit.

And let's go to one more slide there. And you know, this reasonable method – you've got to consider multiple things. One, you've got to consider does it make sense; does this have a relationship to the benefit that the cost center gets? But we also have to pay attention to the cost of doing a method. We don't want to choose super expensive methods to allocate costs; we want to choose the most effective and efficient method to allocate costs. And then we want to choose methods that we know we can apply consistently to a specific type of cost. So when we're considering methods, there's not really that many choices, sometimes it helps to talk to other organizations. But you've got the two tests to keep in mind. First test is: Can I defend the relationship between this method and some reasonable benefit received by the different cost objectives? And two: Is this a cost-effective method, and can I defend it as being simple enough that we're not wasting money trying to get more precise than we possibly can get. And with that, we got to turn it back to Jonathan.

[Jon]
Thank you, Kay. So, a bunch of questions have come in. We only have about 10 minutes left, so I'll try to rush through this a bit, so we can so we can get to some of those questions. You'll see in the guide there are some common allowable methods we wanted to present, of course, common allowable methods that are typically reasonable ways in which organizations go about allocating shared costs. And the first one to talk about, Kay mentioned in one of our examples, full-time equivalent. And what is this? This is basically allocating costs based on a percentage of the total staff time devoted to each cost objective. And so, you know, typically a full-time employee, let's say, is an employee who works 40 hours that represents one full-time equivalent position. Let's say that particular employee works 20 hours on one program and 20 hours on another, then you could say that 0.5 FTE is devoted to one program and 0.5 FTEs is devoted to the second program, and you're charging your awards, essentially, for the time the employees have spent benefiting those particular programs based on what you're what you're seeing them track and submit in their time tracking reports. And so that's really FTE, essentially staff time that's devoted to each cost objective and then charging according to that calculation.

We have an example – we took this from, from the toolkit itself, and I've laid it out here in bullet points. Essentially, you have Best CAA is the fictitious CAA that we've chosen to highlight here. Their employees track and submit time devoted to different programs. Full-time employee equals 40 hours per week. So at the end of a week the total of all the hours worked for program A was 80 hours, which can come out to two FTEs, so 80 divided by 40 hours is two. So two FTE is two full-time equivalent positions. Employees devoted 160 hours in that week, or four FTE positions to Program B. And so based on that percentage, based on the total percentage of six FTEs for those two programs, Best CAA can estimate that Program B has received twice as much benefit. So four FTEs out of out of six FTEs, which comes up to 66% for the use of the telephone system, and telephone system or reception funds function are the examples used in this example. Whereas program A received 33% of the benefit based on that calculation. And so what you would do is you would allocate 66% of let's say, the telephone system cost for that week to Program B, and you would allocate 33% of that cost to Program A based on what you've seen in those FTE calculations. And so, anything to add on that particular example, Kay?

Kay]
No, I think that's good. I think we got to keep moving because we got a lot of questions.

[Jon]
All right. So there's also units of service, is another common allowable method. Essentially, as your organization, you're allocating based on the number of units of service delivered. When you choose to use this method of allocation, you have to track the actual number of transactions involved in a service, not any planned or budgeted percentages. The big example we see often here is number of IT tickets. So if you use IT services at your organization, you get a ticket. And so IT tracks what programs let's say it serves with its tickets, and then uses those units of services to determine the percentage of benefit to each program based on the actual number of transactions or tickets that it issues, and then allocates essentially, based on that. I think one of the challenges with this particular method is that not all units of service involve the same amount of time, the same amount of effort or resources. One IT ticket, for example, to one program may take a day or two days to complete, whereas others can take 10 minutes. So it's not reflective, sometimes, of actually the duration of time or services provided. And so that may vary depending on—

[Kay]
Also that's one of the - remember these are IT people so they can probably figure out how to track the exact time they spend on each.

[Jon]
Yes, that's for sure, for sure. So quickly. Another example to talk through. Again, we have Best CAA. We have a client intake center that provides information and intake services to the community on all programs that the CAA provides. And so the center staff essentially track new applicants and enrollees for programs in a database. So they enter, for example, when they get a new enrollee in a program, they put them in the database. This particular CAA is going to allocate intake staff costs each month using the number of new enrollees that it sees in a database for that month for each program. And so here's the example for new enrollees in a month. Program A there are 10, Program B there are 10, Program C there were 20. It's able to determine and calculate the benefit of each program has received from the client intake center as a result of those units of service that you see there. And so Program A 25% of the benefit, Program B 25%, and Program C 50%. And then it's going to allocate that month's cost for that center to those programs according to those percentages.

And then the last common allowable method that I'll go through here and the last one that the resource itself includes, Kay also mentioned, which was the issue of square footage. A common method that we see for shared facilities costs, things like rent, utilities, janitorial services. I think Kay mentioned heat in her example. But essentially, you're dividing each cost objectives square footage used by the total square footage in the facility itself. So you have a facility, you have different cost objectives that are benefiting from that facility. So you determine what amount of square footage each cost objective uses in that facility, and dividing it by the total square footage. In this example, you have to exclude common space, because common space is being theoretically used by each cost objective. And so that's something you need to allocate as well, based on those percentages that you determine through your calculations of the square footage used by each cost objective, and then allocate common space as well as other costs in the facility. Again, this has to be actual square footage used, not any type of budgeted use for the facility. And as you might expect, when there are frequent changes in a facility in the use of space, if different programs are frequently having staff turnover who use different space in a facility, that can pose a challenge, because agencies essentially in that situation have to consistently update the actual square footage that's being used by the various cost objectives.

And so an example again, you have Best CAA, it has a 10,000 square foot facility. Program A is using 2,000, Program B, 5,000. And common space is 2,000. And then agencywide administrative uses 1,000 square feet. And so you would exclude that common space out of the calculations to determine the benefit to each program. So Program A, 25% of the benefit, Program B, 62.5%, agencywide administrative has 12.5% of the benefit. And then you're essentially using the percentages that you've determined to allocate the facilities costs, including the common space, as well, there. And so I want to bring up that example. I know we have questions. And we have three minutes to answer all of those. But, Kay, do you want to talk briefly about the concept?

[Kay]
Well, yeah, we'll just point out that you will find in the toolkit, the sample cost allocation plan. It's an example, you gotta modify it for your situation. You never want to copy another organization's cost allocation plan, unless you are going to do exactly what they do. Because in an audit situation, what's going to be evaluated is whether you followed your written plan or not. So I think we've got a good start for you there. But Jonathan, can we just start going through some of these questions, even though it's gonna make us run over time? Because I think I think there's some we could answer pretty quickly.

[Jon]
Yeah, so there was one question. If you have a federal negotiated indirect cost rate, can the funders tell you that they want to review the expenses associated with the amount charged to the grant? I think with the federal negotiating their cost rate they could do that?

[Kay]
Well, I would say, you know, that's why you negotiated the rate with the cognizant agency. And they have already determined that you have correctly defined administrative and indirect costs, and they have accepted your method of calculation. Now, if someone monitoring you wants to object that they don't believe you have correctly classified a cost, they're going to have to be able to show that you did something other than what you negotiated with the cognizant agency because that that's the approval for your approach.

[Jon]
We had several comments about the slides. The slides will be available with a recording after the presentation on the Resources page of CAPLAW's website.

Would it be acceptable to allocate building costs by square footage, IT support contract expenses based on computers and each program, and then use the de minimis rate for administrative expenses like accounting, management, HR, etc.

[Kay]
That gets at a really interesting other question that was asked sort of the reverse of that, and that is, you know, in the de minimis rate, it does say it is to include your agencywide administrative costs. And there it also describes including certain facilities costs. But in practical matters, most funders and most auditors are totally satisfied if you get all of your agencywide admin costs included in that 10% category. And then you could use another method of cost allocation to recover facilities costs. Why do I make that point? Because often your agencywide admin costs are at least 10%. And so if you start tossing in other shared costs, and try to recover them with the 10%, you're going to lose money on doing that.

But we did have an interesting question when someone said, well, two questions. One, what about the interaction between the 10% de minimis rate and a statutory cap on a type of, you know, that comes through one of your programs? Well statutory caps do rule the day. So if you have a statutory cap of 5%, that's it. However, one thing to remember is, what did you put in your indirect cost category, that you were trying to recover with the 10%. Because if you've put something other than agencywide admin costs in there, like allocated costs for facilities, or allocated costs for certain supplies, that's not going to hit the admin cap. So you could do a little analysis of what you put into your - what you were covering with your 10% de minimis rate. But in most cases, it's not going to save you if there's a low admin cap, what that's going to mean is that you cannot charge the full 10% to that particular funding source.

[Jon]
Okay, someone also asked: Can we charge our maintenance workers time to programs based on tasks completed for that program? Seems like they're trying to do a unit of service type.

[Kay]
Yeah, units of service, I think if you could keep good track of that. And, you know, it's kind of that same thing that you said on the square footage method, that, you know, maintenance people are not every minute working on a particular project. There's quite a bit of, you know, overall time. So same thing that you said about common space. You could say, well, if you have a ticket system for maintenance tasks, and they can be allocated to the different cost centers, then go ahead and use that percentage to allocate the time where they would say, we don't know what we were doing. We weren't working on a specific project.

[Jon]
Someone's asking about the de minimis. They'd like to confirm that there is no absolute list to be covered in the de minimis. We have IT telecoms being direct charged based on hours, all of their traditional overhead costs in de minimis, is that okay? I think there's confusion, I think, for the de minimis, what you have to use there is the modified total direct cost base when you're recovering the de minimis. And there is a set, a standard definition in the Uniform Guidance about what has to go into the modified total direct cost base there. And so that's what you would use when you use the de minimis rate.

[Kay]
Right, there is no - it's very clear what can go into the denominator, the base, the modified total direct cost base. Where there's some wiggle room is what goes into the numerator, what you are calling indirect costs that you are trying to recover with the 10%. The important thing is you can't take the same cost and both recover it to the 10% and also try to directly charge it to your various awards. There's no double dipping allowed.

And there was a question I saw pass by that said, "Well, what if when we actually calculate what our indirect costs are using the modified total direct cost base, what if it turns out to be less than 10%? And we're charging the 10% de minimis rate? What if ours is really 8%?" That question was really discussed thoroughly at the beginning of the Uniform Guidance, and the conclusion was, it's de minimis. That means you're entitled to it, it's the minimum you're entitled to. So yes, that if you carry it to the logical conclusion, that will mean that what you recover from that award, when you charge all your direct costs, and then you charge the 10% indirect, what you recover might actually exceed the cost that you have recorded in your system. And the question was, "well that excess, is that unrestricted?" Well, it's very uncomfortable to say that it is. But I think it probably is because you were entitled to the 10%. That thing I would do, you know to make auditors happy is I would look really carefully at what I included in my indirect cost pool, and I would ask myself, could someone challenge me? For example, if my rate was 8%, could they challenge me for not including facilities costs? If they could, I'd probably put them in there. Because you're not supposed to be profiting from this rate.

[Jon]
So we were about five minutes over. I think maybe we'll just do one more question that I see. I think we've addressed a lot of the questions that were there. Thank you for all for putting those in. Someone just asked if you select de minimis, can you switch to a direct later and get some direct cost allocation?

[Kay]
I believe you can, you just have, you know, it's your choice. But practically, you're not going to do that in the middle of a year, you're going to do that at fiscal year-end. And you're going to have to really think about when you're going to do it, because think of all those award budgets that you've already negotiated. And they don't all end at your fiscal year. So if you're going to make a transition, you really have to plan very carefully for what – when you're going to make it, how you're going to make it, and which of your funding agreements might need to be amended, if you are going to make a significant change.

[Jon]
Kay, someone has asked for your direct contact information. So you've been a popular presenter here.

[Kay]
Actually, on some of these slides, you see my website address and, and I'll type it into the chat too. But you can contact me through my website, or I'm just going to type in my actual email address in the chat.

[Jon]
Thank you. Thank you, Kay. And thank you, everyone who participated in today's session. Again, you can access the toolkit on CAPLAW's Resources page. We'll be making the recording and the slides that you saw today available there as well in the next, in the next few days. And so keep an eye out for that. I know there was a lot of interest in the slides. And thank you again, Kay, for providing your expertise to the resource and to the webinar.

[Kay]
Well you know, I just want to say one more thing to everybody who's like – this just whets their appetite for wanting to know more about cost allocation, which is a source of great pleasure once you get into it – come to the CAPLAW conference, because there are always workshops on the details of cost allocation and indirect cost rates. It's a great place. And where are we going next year, Jonathan?

[Jon]
We will be in Los Angeles next June.

[Kay]
Yeah, it's a great place to go. And there'll be more webinars too, but I think get the guide. And then if you have more questions come to Los Angeles.

[Jon]
Absolutely. Absolutely. Hope to see you all there. And thanks again, Kay. And thank you to everyone who is here. And yeah, we'll see you soon.

[Kay]
Yeah, great. Bye bye.

[Jon]
Thank you. Bye.

This resource was developed by Community Action Program Legal Services, Inc. ("CAPLAW") in the performance of an award from the U.S. Department of Health and Human Services (HHS), Administration for Children and Families (ACF), Office of Community Services (OCS), Award Number 90ET0505-01. Any opinion, findings, and conclusions, or recommendations expressed in these materials are those of the author(s) and do not necessarily reflect the views of, nor the endorsement by, OCS/ACF/HHS or the U.S. Government. For more information, please visit the ACF website, Administrative and National Policy Requirements.