

The letters S, M, A, R, and T are stacked vertically, each inside a circle. The circles are connected by a dashed line that forms a path from the top to the bottom. The background of the slide features a pattern of overlapping circles in light blue and orange.

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Strategies

Monitoring

Accountability

Risk Mitigation

Transparency

Basics of Cost Allocation and Indirect Costs

SMART 4.0

Hosted by the Office of Grants Management
Division of Compliance Assistance and Policy
Employment and Training Administration
U.S. Department of Labor

SMART 4.0 Training Series

- The training modules are focused on: **S**trategies for sound grant management that includes **M**onitoring, **A**ccountability, **R**isk mitigation and **T**ransparency.
- **4.0 focuses on Risks Identification and SMART Practices!**



Disclaimer

SMART 4.0 is part of the catalog of SMART grant management tools. This conference and its materials should be viewed primarily as a support resource. It is not intended to be comprehensive, but rather to provide an understanding of 2 CFR 200, 2 CFR 2900, and the management of ETA grants. The use of these SMART 4.0 modules does not ensure compliance. Any omission of an applicable Federal requirement does not waive a grant recipient or subrecipient's responsibility to comply with that requirement.

If, in any instance, there appears to be a conflict with the program statute, Federal regulations or OMB guidance, such conflict must be resolved in favor of the statute, Federal regulations, or OMB guidance. All the information contained in the SMART 4.0 modules may not be reproduced or distributed for a fee or profit.

Today's Speakers

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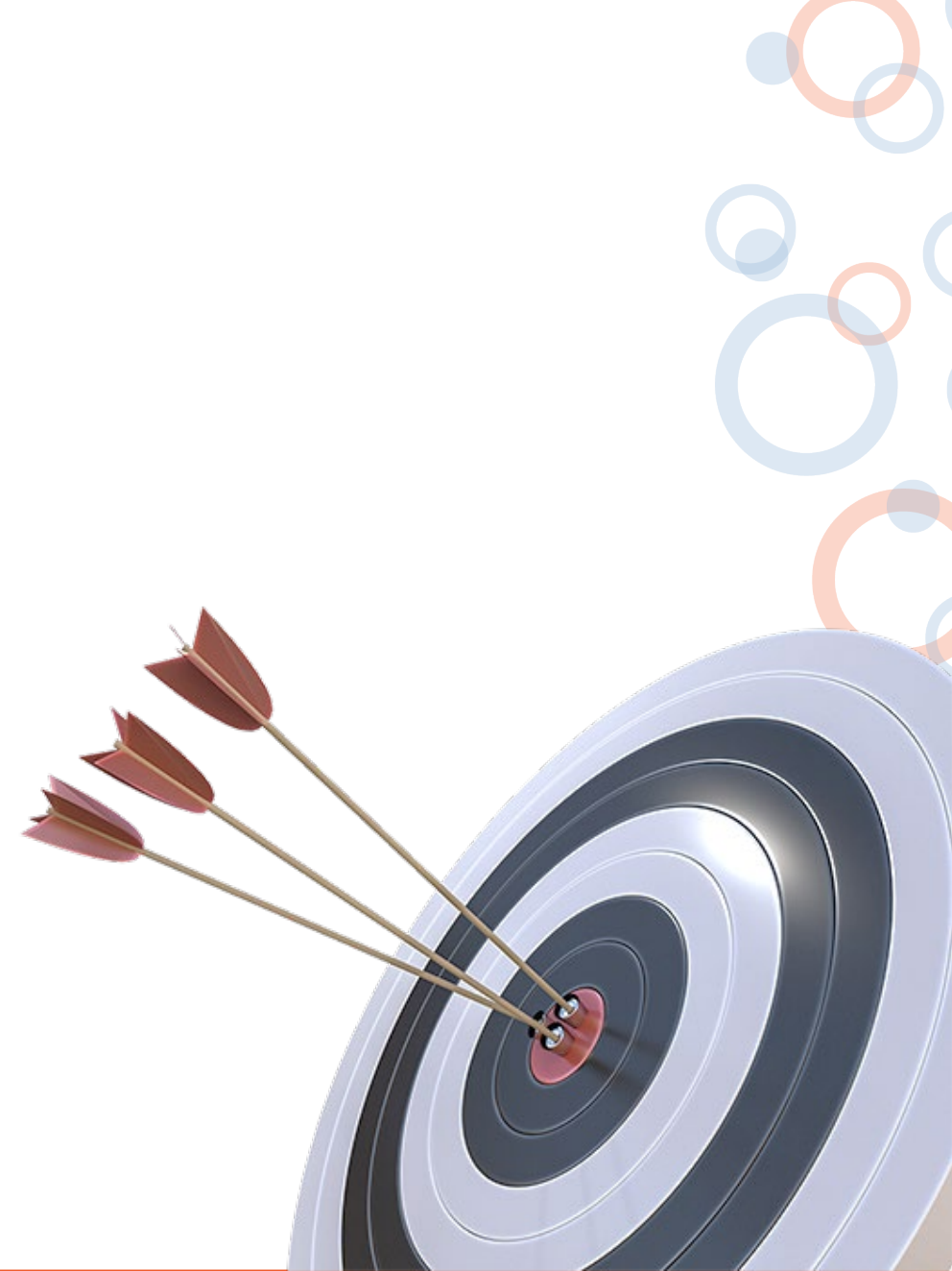
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Module Overview

- Requirements.
- Definitions.
- Cost Allocation Process.
- Measuring Benefit Received.
- Introduction to Cost Allocation Methodologies.
- Risk and SMART Practices.



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Requirements

Requirements

- Allowable [2 CFR 200.403](#)
 1. Necessary, reasonable and **allocable**.
 2. Conform with Federal law, guidelines, and grant terms.
 3. Consistent with policies and procedures.
 4. Accorded consistent treatment.
 5. Be determined in accordance with generally accepted accounting principles (GAAP).
 6. Not included as a cost or used for cost sharing or match funds.
 7. Adequately documented.
 8. Incurred during the approved budget period.

Types of Costs

2 CFR 200.403(d)

- There are three types of costs that you need to deal with as you implement your grant.
 - Direct Costs.
 - Shared Costs.
 - Indirect Costs.





Definitions

Definition – Cost Allocation

2 CFR 200.1

- The process of assigning a cost, or a group of costs, to one or more cost objective(s), in reasonable proportion to the benefit provided or other equitable relationship.
- The process may entail assigning a cost(s) directly to a final cost objective or through one or more intermediate cost objectives.

Definition – Direct Costs

- Direct costs are those costs that can be identified with a particular final cost objective, such as a Federal award, or
 - other internally or externally funded activity, or
 - that can be directly assigned to such activities relatively easily and with a high degree of accuracy.
 - [2 CFR 200.413](#)
- **Examples:**
 - Salary and fringe benefits for a project coordinator **who only** works with a certain project or program.
 - Square footage of space of office/cubicle assigned to project coordinator.
 - Computing devices assigned to project coordinator.

Definition – Shared Direct Costs

- Shared costs are direct costs that benefit more than one cost objective or program.

- **Examples:**
 - Salaries for a case manager who works with WIOA adult and dislocated workers participants.
 - Square footage of space of office/cubicle.
 - Computing devices assigned to manage cases.
 - Youth coordinator for a summer employment program supported with local foundation and Federal funds.



Definition – Indirect Costs (1)

2 CFR 200.1

Facilities and Administrative Costs:

- Costs incurred for a common or joint purpose **benefitting more than one** cost objective, and **not** readily assignable to the cost objectives specifically benefitted, **without effort** disproportionate to the results achieved.
- When indirect cost pools are necessary, they must be distributed to benefitted cost objectives on bases that will produce an **equitable** result compared to **relative benefits** derived.

Definition – Indirect Costs (2)

- Cost incurred for the same purpose and treated as direct costs cannot be charge as indirect costs.
- **Examples:**
 - Administrative salaries, executive director salary, payroll processing agent, admin space & operational expenses

Indirect Costs (3)

2CFR 200.414

■ **Example: Cost associated with facilities.**

- Depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses.

■ **Example: Cost associated with administration.**

- General administration and general expenses such as the director's office, accounting, personnel and all other types of expenditures not listed specifically under one of the subcategories of "Facilities".

Program Costs

- Costs related to the direct provision of workforce investment services, including services to participants and employers ([20 CFR 683.215](#)).
- **Examples:**
 - Costs not considered administrative in definition or nature.
 - Costs related to participants; direction, supervision, management, tracking.
 - Costs related to training, providers, LMI, performance.
 - Cost directly associated with a program activity or goal.



Administrative Costs

- Expenditures incurred in the performance of administrative functions and in carrying out activities that are not related to the direct provision of workforce investment services (including services to participants and employers) ([WIOA sec. 3\(1\)](#)).
- Such costs include both personnel and non-personnel costs and both direct and indirect costs.
- Examples:
 - Accounting, Budgeting, Payroll, Procurement, Cash management.
 - Facilities, Property management, Insurance, Personnel.
 - Monitoring, Audit, Investigations, Incident reports, Resolution activities.
 - Automated systems.
 - Any contract or sub-award that is “administrative” in function.
 - General legal, Human resources.

[20 CFR 683.215\(b\)\(1-5\)](#)

Differences between Direct and Indirect Costs

- To determine the difference between indirect and direct costs, ask whether the cost be traced.
 - If the cost can be identified **specifically with a particular cost objective** such as a grant, program, project, function or activity, then it is a **direct cost**.
 - If the cost **cannot be readily assignable** to a cost objective, then it is an **indirect cost**.
 - › A cost methodology must be used to assign these costs to a final cost objective.

Indirect Versus Administrative Costs

■ Characteristics

- Not all indirect costs are classified as administrative costs and vice versa.
- Administrative costs can be personnel, non-personnel, direct and indirect [20 CFR 683.215\(b\)1-5](#).
- The amount chargeable is limited.



Cost Allocation Process

Process for Allocating Costs

- Criteria.
- Consistent treatment.
- Cost objectives.
- Cost pools.

Allocating Costs

[2 CFR 200.1](#) and [2 CFR 200.405](#)

■ Criteria:

- Is incurred specifically for the Federal award.
- Benefits both the Federal award and other work of the grant recipient.
- Can be distributed in proportions that may be approximated using reasonable methods.
- Is necessary to the overall operation of the grant.
- Is assignable in part to the Federal award in accordance with the **Uniform Guidance Cost Principles requirements**.

Consistent Treatment

- Costs incurred for the same purposes in like circumstances.
- Cannot charge as direct cost to one grant and as indirect to another.



- Cannot shift costs from one cost objective to another to overcome funding deficiencies, avoid restrictions imposed by law or grant agreement, or other reasons.
 - From one grant to another grant (exception).
 - From administrative to program cost category.
 - From direct to indirect cost or vice versa.

Cost Objectives

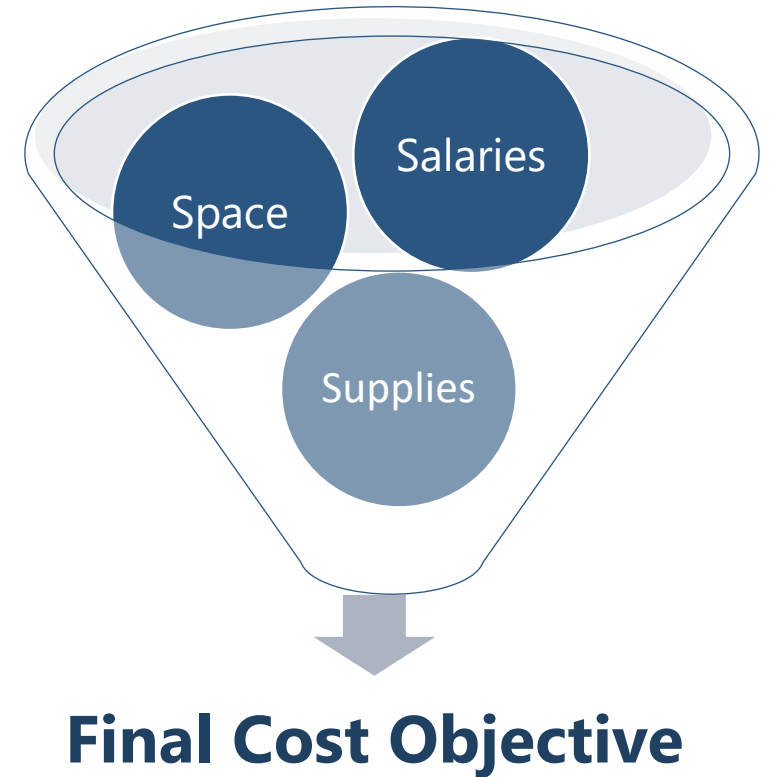
2 CFR 200.1

- Cost Objective.
 - A program, function, activity, award, organizational subdivision, contract, or work unit for which cost data are desired.
 - Intermediate Cost Objective.
 - A cost objective used to accumulate indirect or service-center costs that are subsequently allocated to one or more indirect cost pools or final cost objectives.
 - Final Cost Objective.
 - Both direct and indirect costs are allocated to it.
- Costs are allocable to a particular cost objective to the extent of relative benefits provided to that cost objective.
 - If no benefit is received, then the cost is not allocable to that objective.
 - If partial benefit is received, then the cost must account for the partial benefits received.

Cost Pools

Criteria

- Occurs when it is not possible to assign direct costs to a final cost objective.
- Are limited to shared direct and indirect costs.
- Only actual (not budgeted) costs may be pooled.
- May be used to classify costs.
- All costs in the pool must be allowable costs for all the cost objectives.
- Allocated to final cost objectives in proportion to the relative benefits received.



Shifting Costs

2 CFR 200.405(c)

- Any cost allocable to a particular Federal award under the principles provided for in this part may **not** be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards.
- This prohibition would not preclude the grant recipient from *shifting costs that are allowable* under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.
 - Example: Costs tied to co-enrolled participants.

Check Your Knowledge in 60 Seconds

Answer True or False

- 1) For a cost to be allocable it needs to be able to be distributed in proportions that may be approximated using reasonable methods.
- 2) It is best to charge costs to an intermediate cost pool whenever possible.
- 3) Fiscal monitoring, audits, and preparation of an indirect cost rate proposal are all examples of program costs.



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Measuring Benefit Received

Relative Benefit Received

- Costs are allocable to a particular cost objective to the extent of relative benefits provided to that cost objective.
 - If no benefit received, then it is not allocable to that objective.
- Method used for measuring benefit is an integral part of the process for allocating costs.
 - The method used is the allocation base.
- Costs pooled or assigned to intermediate cost objectives must be allocated to final cost objectives using an acceptable allocation base.

Allocation Bases – Distribution Basis (1)

- An allocation base is the method of documentation used to measure the extent of benefits received when allocating joint costs among multiple cost objectives.
- The base is incorporated into a mathematical formula that, when applied to the accumulated costs in the pool, results in the amount to be distributed to each final cost objective.
- Organizations are likely to use different bases for different costs.
- Acceptable methods for distributing pooled costs may vary.
 - Examples include using square footage to allocate rent costs or participant headcount to allocate participant supplies.

Considerations for Allocation Bases – Distribution Basis (2)

1. Related to the types of costs being allocated.
2. Fair measure of cost generation or benefit.
3. Results in equitable allocation of costs.
4. Minimal distortion.
5. Actual effort and costs.
6. General acceptability.
7. Cost-effective use of available and representative data.
8. Timely management control.
9. Adjusted for variations in funding and services provided.

Allocation Methods – Inputs

- Resources used; examples and documentation.
- Number of employees - staffing plan.
- Number of transactions - transactions count.
- Direct labor hours - timesheets/Personal Activity Reports.
- Space usage - floor plan showing space used by program/function.
- Traditional method of allocation.
- Allocated at time of cost incurred.

Allocation Methods – Outputs

- Work units or products completed.
- Number of participants served.
- Results obtained.
- Allocated at the end of the process or period of time.
- Percent share of expenditures.
- Documentation.
- Numerical counts.
- Expenditure reports.

Examples of Cost Allocation Bases (1)

Accounting	Number of eligible participants, current period enrollments
Auditing	Expenditures audited, Direct audit hours
Budgeting	Direct labor hours
Consumable Supplies	Total direct costs, Direct labor hours
Case Manager	Number of current enrollees, Number of participants counseled, Direct labor hours
Data Processing	System Usage, Direct labor hours
Disbursing Service	Number of checks issued, Direct labor hours

Examples of Cost Allocation Bases (2)

Intake	Number of eligible participants, current period enrollments
Equipment	Number of employees, Direct labor hours, Direct expenditures
Office Space	Square feet of space occupied, Direct labor hours
Payroll Services	Number of employees
Personnel Services	Number of employees
Postage	Direct usage, Acceptable survey methods
Reception and intake services	Direct expenditures, Current enrollees

Unacceptable Allocation Methods

- Funds available.
- Plans, budgets or estimates not adjusted for actual costs.
- Non-contemporaneous data such as results from prior periods.
- Job descriptions.
- Number of staff hours budgeted to an activity not adjusted to actual hours.
- Planned expenditure levels.
- Planned participant levels.



Introduction to Cost Allocation Methodologies

Formalize the Allocation Methods

■ Cost Allocation Plans.

- A document that identifies, accumulates, and distributes allowable direct costs (or indirect costs for governmental organizations) and identifies the allocation methods used for distribution.

■ Negotiated Indirect Cost Rate Agreements.

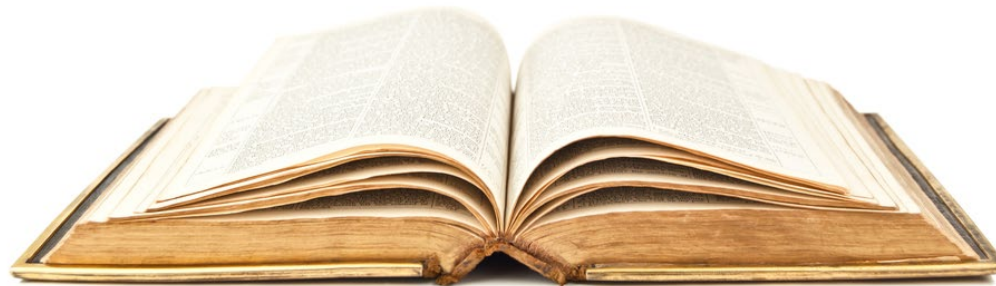
- A rate is required if recipient has a direct Federal cost reimbursable grant, has more than one funding stream or award, and will request reimbursement for indirect costs.
- No rate needed if no indirect costs in budget.
- A negotiated agreement between the grant recipient and a cognizant agency.

■ De Minimis Rate.

- It is a simplified method of charging minimal amounts of indirect costs to Federally funded grants without having to obtain an approved indirect cost rate agreement from the Federal government.

Definition - Cost Allocation Plan (CAP)

- What is a cost allocation plan?
 - A document that identifies, accumulates, and distributes allowable direct costs (or indirect costs for governmental organizations) and identifies the allocation methods used for distribution.



Cost Allocation Plans (CAPs)

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 Plan (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.

Definition - Indirect Cost Rate Agreement

- What is an indirect cost rate (ICR)?
 - An ICR is a device for determining fairly, and conveniently within the boundaries of sound administrative principles, the proportion of indirect cost for each program.
- An ICR may be formalized as a negotiated agreement .
 - The negotiated indirect cost rate agreement (NICRA) will identify both the indirect cost rate and the direct cost base against which the rate will be applied.
 - The result of each negotiation must be formalized in a written agreement with your cognizant agency for indirect costs.

Indirect Cost Rate Basics

- Why I would need a rate:
 - Ensure equitable cost-sharing among all funding streams, Federal and non-Federal.
 - Means of charging F&A costs.
 - No rate needed if no indirect costs in budget.
 - A rate is required if recipient has a direct Federal cost reimbursable grant, has more than one funding stream or award, and will request reimbursement for indirect costs.

Definition - De Minimis Rate

- A simplified method of charging minimal amount of indirect costs to your Federal award. Developed by the Uniform Guidance to reduce the administrative burden of a NICRA for grant recipients.
- Who can use the de minimis rate? An eligible entity:
 - Has indirect costs; does not have a current negotiated (including provisional) rate.
 - May charge 10% of modified total direct costs (MTDC) for an indefinite period.
 - › No documentation is required to justify the 10% de minimis indirect cost rate.
 - Costs must be consistently charged as either indirect or direct costs but may not be double charged or inconsistently charged as both.
 - Must be used consistently for all Federal awards until the grant recipient chooses to negotiate for a rate.
- Non-eligible entity.
 - Governmental units with more than \$35 million in direct Federal funding.

Modified Total Direct Costs (MTDC)

- Actual salaries, wages, fringe benefits, materials and supplies, services, travel; subawards up to the first \$25,000 of each subaward.

MTDC Exclusions:

- Equipment, capital expenditures, patient care, rental costs, tuition remission, scholarships, fellowships, and participant support costs.
- Portion of each subaward in excess of \$25,000.
- Other items may be excluded by Federal cognizant agency such as subcontracts.

Check Your Knowledge in 60 Seconds

Select the correct answer.

- 1) Which of the following are acceptable allocation bases?
- a. Funds available
 - b. Actual effort or cost
 - c. Planned participant levels
 - d. Job descriptions





Risks and SMART Practices

Common Risks

■ Examples:

- Charging a cost under the direct cost category for one program when the cost benefits multiple funding streams or programs.
- Using unacceptable bases.
- Lack of documentation to support the allocation of costs.
- Treating costs inconsistently each quarter.
- Allocating costs not based on relative benefit received.

SMART Practices

- Update policies to require written evidence of costs being allocated to the grant are: (1) allowable, (2) being treated consistently over time and within the accounting system, (3) are necessary and reasonable, (4) and allocated to the grant based on benefit received ([2 CFR 200.403](#)).
- Create or update policies on the allocation of indirect costs and shared direct costs where necessary and applicable.
- Train staff to recognize when costs should be direct charged or allocated.
- Install a process to evaluate and update the distribution bases to ensure that shared costs are allocated to programs or activities on an equitable or proportionate share.

Any Questions?



Testing for Compliance – Core Monitoring Guide

The purpose of ETA monitoring is to assess for compliance using the Core Monitoring Guide (CMG). Here is a list of indicators that discussed during the module's topic.

■ **Indicator 3.g.1: Cost Allocation Principles.**

- There is written evidence that costs being allocated to the grant are allowable, being treated consistently over time and within the accounting system, are necessary, reasonable, and are allocated to the grant based on benefit received.

Basics of Cost Allocation Resources

- [Core Monitoring Guide](#)
 - [Tool O: Cost Allocation Worksheet](#)
- [American Job Center \(One – Stop\) Comprehensive Financial Management Technical Assistance Guide Part II](#)
 - Chapter 8: Cost Allocation and Cost Pooling
- [Funding for the One-Stop \(American Job Center\) System Technical Assistance Guide](#)
 - Chapter 5 Cost Allocation
- WIOA Administrative Provisions
 - [20 CFR 683.215\(b\)\(1-5\)](#)
- [Uniform Guidance Crosswalk](#)
- Uniform Guidance
 - [2 CFR 200.403](#)
 - [2 CFR 200.405](#)
 - [2 CFR 200.413](#)
 - [2 CFR 200.414](#)
 - [Appendix II to Part 200](#)
 - [Appendix III to Part 200](#)
 - [Appendix IV to Part 200](#)
 - [Appendix V to Part 200](#)
 - [Appendix VI to Part 200](#)

Thank You!