



Cost Allocation and Cost Pooling

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Federal Guidance

- ▶ OMB Circular A-87: Cost Principle for State, Local Governments and Indian Tribe Governments.
- ▶ OMB Circular A-122: Cost Principle for Non-Profit organizations
- ▶ OMB Circular A-21: Cost Principle for Educational Institutions
- ▶ 48 CFR Part 31: Cost Principles for Commercial Organizations
- ▶ 45 CFR Part 74, Appendix E
- ▶ Guidance on direct and indirect costs

Types of Costs

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

Cost Objectives

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

Treatment of Costs

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

Cost Pools

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

Managing Pools

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

Allocation Bases

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

Using Inputs

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

Commonly Used Bases

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

Allocating Personnel Services

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

Time Distribution

- ▶ Time & attendance records (PAR)
 - Various methods
- ▶ Time sampling methods
 - Cognizant agency approval
- ▶ Measurable work outputs
- ▶ Used also for allocating non-personnel costs

Output Based Allocation

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

Output Based Requirements

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

Important: Unacceptable Allocation Bases

- ▶ Fails to meet standards
- ▶ Distorts final results
- ▶ No direct relationship to costs
- ▶ Developed from plans, budgets or estimates
- ▶ Allocation must result in **EQUITABLE** distribution of costs
- ▶ Any cost allocable to a particular grant or other cost objective may not be shifted to other Federal grants to overcome funding deficiencies, to avoid restrictions imposed by law or grant agreement, or for other reasons.

Cost Allocation Plans

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

Types of CAP's

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

CAP Elements

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

Keep in Mind...

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

Benefits of a CAP

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

Additional Considerations

- ▶ Charging of indirect costs
- ▶ Indirect Cost Rate approvals
- ▶ Multiple cost classification standards
- ▶ Differing definitions of cost items

More to Consider

- ▶ DOE guidelines on statistical sampling
 - Attachment 1
- ▶ One-Stop issues
 - Module 1-2
- ▶ The value of reconciliation

Questions?