



Cost Allocation Plans 101

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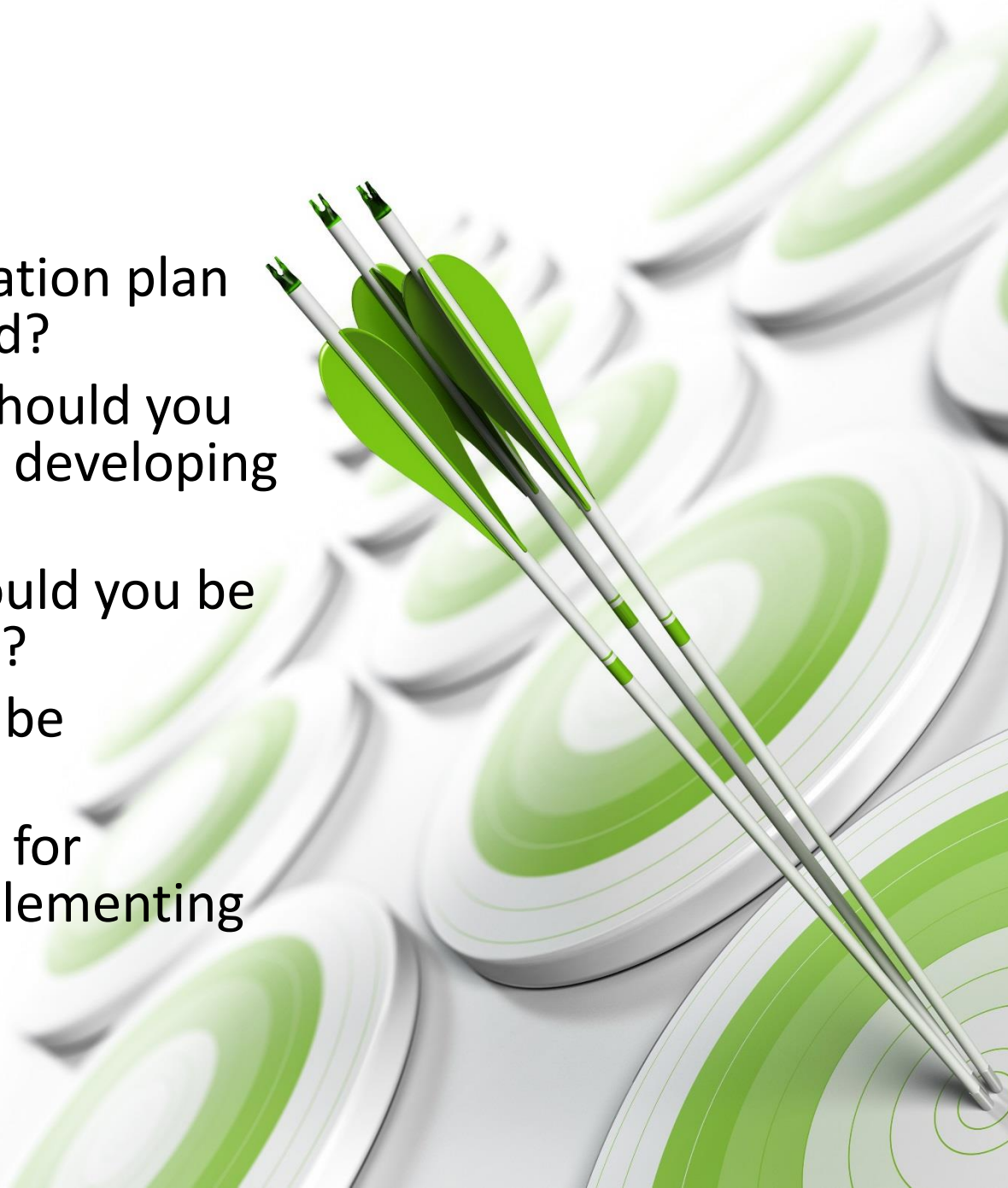
Nonprofit Manager

Mark Payne, CPA

Partner

Key Questions

- What is a cost allocation plan and why is it needed?
- What information should you have on hand when developing your CAP?
- What questions should you be prepared to answer?
- Does a CAP have to be complicated?
- What is the process for developing and implementing CAP?



What is a Cost Allocation Plan (CAP)?

- A cost allocation plan (CAP) is a written summary of the procedures and methodology used to allocate costs to various cost objectives (programs, grants, contracts, and agreements).
- Cost allocation plans are one of two ways to recover costs under federal Uniform Grant Guidance principles (the other being a federally negotiated indirect cost rate).
- A CAP also is useful for the Organization to analyze the financial performance of each program by assigning its share of overhead costs.

Definitions

- **§200.413 Direct costs** – those costs that can be identified specifically 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 with a high degree of accuracy.

Definitions

- **§200.414 Indirect (F&A) costs** – those for which benefit to cost objectives must be estimated
 - “Facilities” is defined as depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses.
 - “Administration” is defined as 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”

Information Needed for CAP

- The Organization's financial policies and procedures
- A statement of revenues and expenditures by program
- Audited statement of functional expenses (if applicable)
- Chart of accounts
- Copies of grants/award notices



CAP Questions

- How many programs do you have?
- How many funding sources do you have? Are they federal or nonfederal?
- Who is your cognizant agency (who provides the largest % of your funding?) Do they have any special requirements?
- Do your staff work primarily on one or two programs, or are they split across several programs? Would it be practical to have staff specialize in one program to simplify cost allocation?

CAP Questions

- Is your staff's percentage of effort in line with where you get your funding from? Or are they spending a lot of time on smaller programs that don't provide a lot of funding? This will impact the Organization in cost recovery.
- Do you have administrative or indirect recovery caps on any of your programs? Note that this will not affect cost ALLOCATION but will affect cost RECOVERY, and may result in the Organization having to fund programs out of unrestricted funds if the cost of the program after allocation is greater than the funding received.

Does a CAP have to be complicated?

- Not necessarily. There are several acceptable methods for cost allocation, and you can choose the one most suitable to your organization based on a variety of factors
 - Size of the Organization
 - Number of programs and diversity of funding streams
 - Ability to easily identify costs with programs as direct charges
 - Requirements of cognizant agency (Appendix IV to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations, paragraph C.2.a.)

Direct Allocation Method

- All costs are treated as direct except G&A
 - 3 cost categories:
 - General administration
 - Fundraising
 - Other direct functions
 - Joint costs (facilities costs such as depreciation, operation & maintenance, etc.) are prorated as direct costs to each category and to each Federal award using an acceptable base (FTE, labor hours, labor dollars)
 - Indirect costs allocated by dividing allowable indirect costs by distribution base to determine indirect rate

A CAP should generally consist of:

- Definition direct and indirect costs (see earlier slides).
- An explanation of the method used for allocation (i.e. the direct method in this instance) and how it is being applied.
 - Example: Direct costs that can be identified to one program are charged directly to that program. Direct costs that are attributable to multiple programs are charged to those programs using a base resulting in equitable distribution (usually FTE's, salaries and wages, or square footage). All other G&A costs that cannot be identified to specific programs are charged to all programs using a base resulting in equitable distribution.

A CAP should generally consist of:

- Justification for allocation methods and bases used. In other words, noting that the method and base result in equitable distribution of costs to cost objectives.
- It is also helpful to include the following in your CAP to assist with implementation:
 - List of programs and common costs associated with those programs
 - A description of the Organization's accounting system (i.e. software used) and general ledger structure. GL structure can often become complicated for Organizations with multiple grants from a variety of funding sources, and as a result it can be useful to define the coding string segments in the CAP.

Developing and Implementing CAP

- Analyze and summarize the Organization's funding streams
- Determine the method of allocation and bases to be used by the Organization
- Make sure that your GL structure is compatible with your cost allocation process (e.g. consider contract/grant codes, GL accounts for unallowable expenses, etc.)
- Write up the CAP and have it reviewed and approved by the executive director and the board of directors

Developing and Implementing CAP

- Work with your software's IT team to determine the most efficient/effective way to allocate costs. Different software has different levels of ability to accommodate this. Does not need to be overly complicated, can be as simple as doing the calculations in an excel spreadsheet monthly, and recording the allocation adjustment. Alternatively, some software have more robust platforms for entering allocation percentages and running allocations.
- Review your cost allocations at least quarterly (ideally monthly) to track if you are over/under spent on your various awards. There may be some direct costs that are allowable under multiple federal awards that can be reclassified.

A Few Notes:

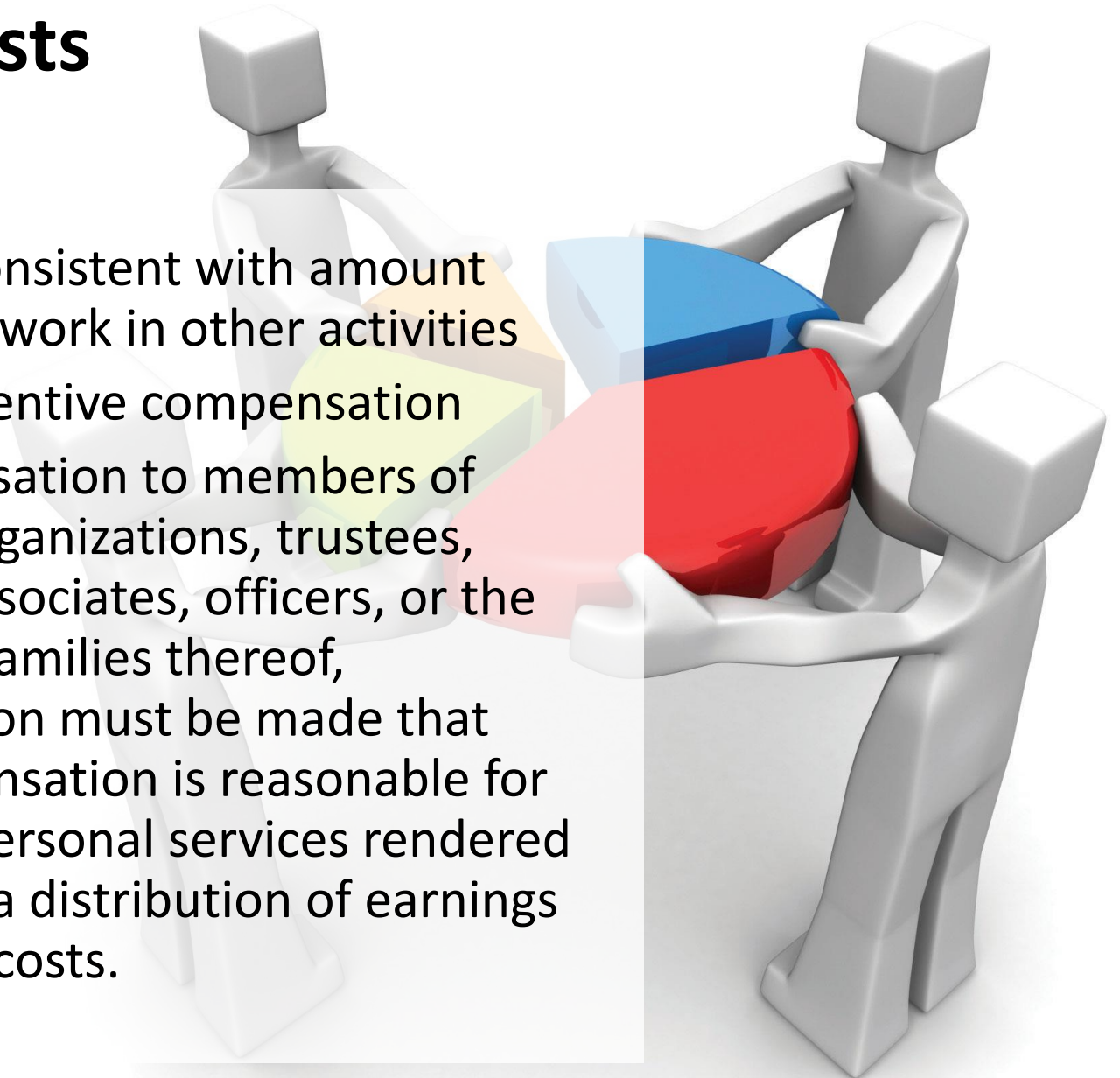
- Allocations must be based on ACTUAL not BUDGET
- CANNOT allocate indirect costs on basis of availability of funds
 - However direct costs that are allowable under multiple programs can be reclassified as a direct charge
- Unallowable activities (e.g. fundraising) still receive a share of indirect costs
- Admin is NOT the same as indirect
- Definition of MTDC
- Special considerations for personnel costs

Modified Total Direct Costs (MTDC)

- *MTDC* means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the period of performance of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of \$25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.

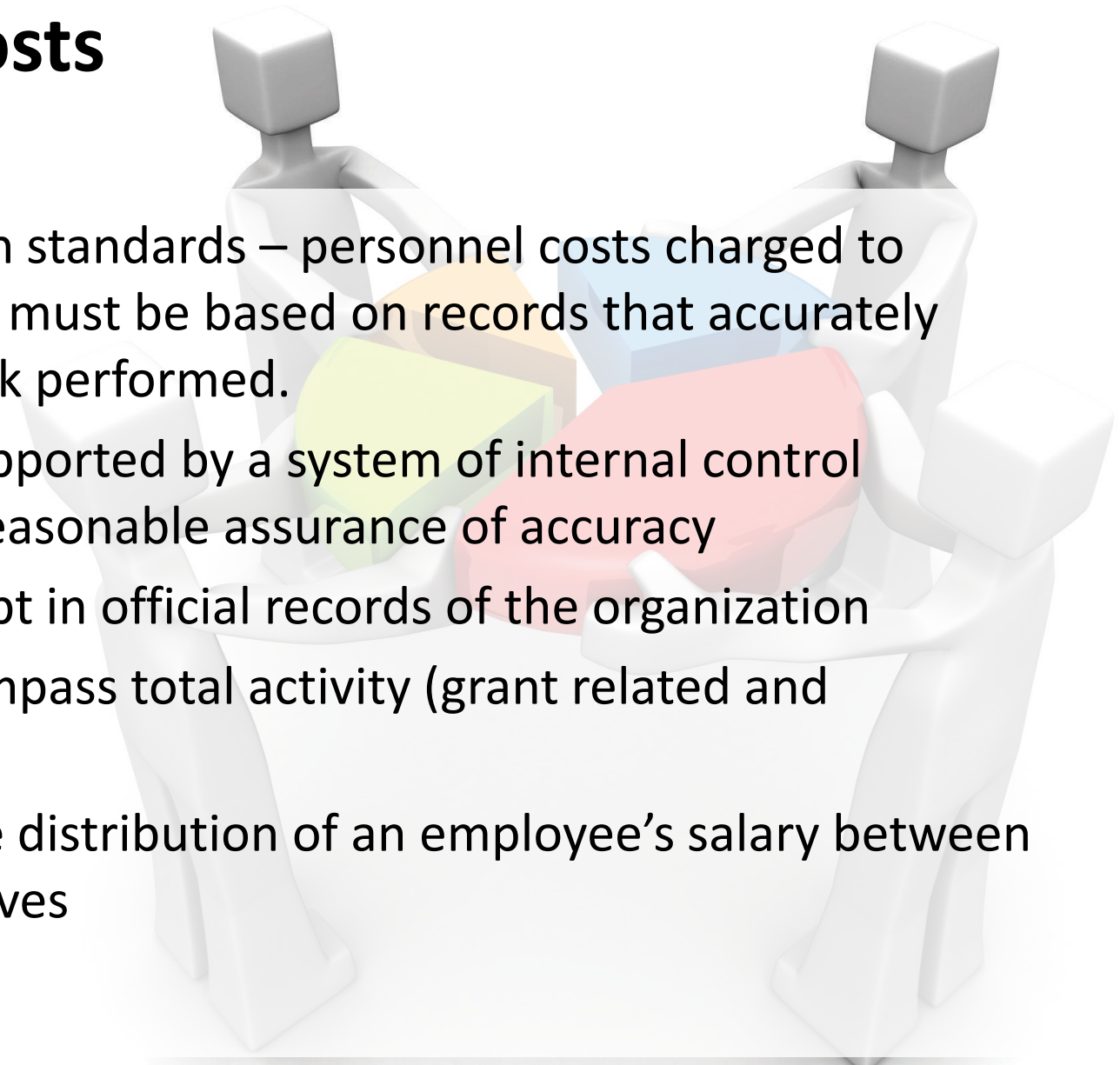
Personnel Costs

- Reasonable - consistent with amount paid for similar work in other activities
 - Includes incentive compensation
 - For compensation to members of nonprofit organizations, trustees, directors, associates, officers, or the immediate families thereof, determination must be made that such compensation is reasonable for the actual personal services rendered rather than a distribution of earnings in excess of costs.



Personnel Costs

- Documentation standards – personnel costs charged to federal awards must be based on records that accurately reflect the work performed.
 - Must be supported by a system of internal control providing reasonable assurance of accuracy
 - Must be kept in official records of the organization
 - Must encompass total activity (grant related and otherwise)
 - Support the distribution of an employee's salary between cost objectives



Sample Documentation

Activity Tracking Sheet FY 16-17

Pay Day: 7/6/16

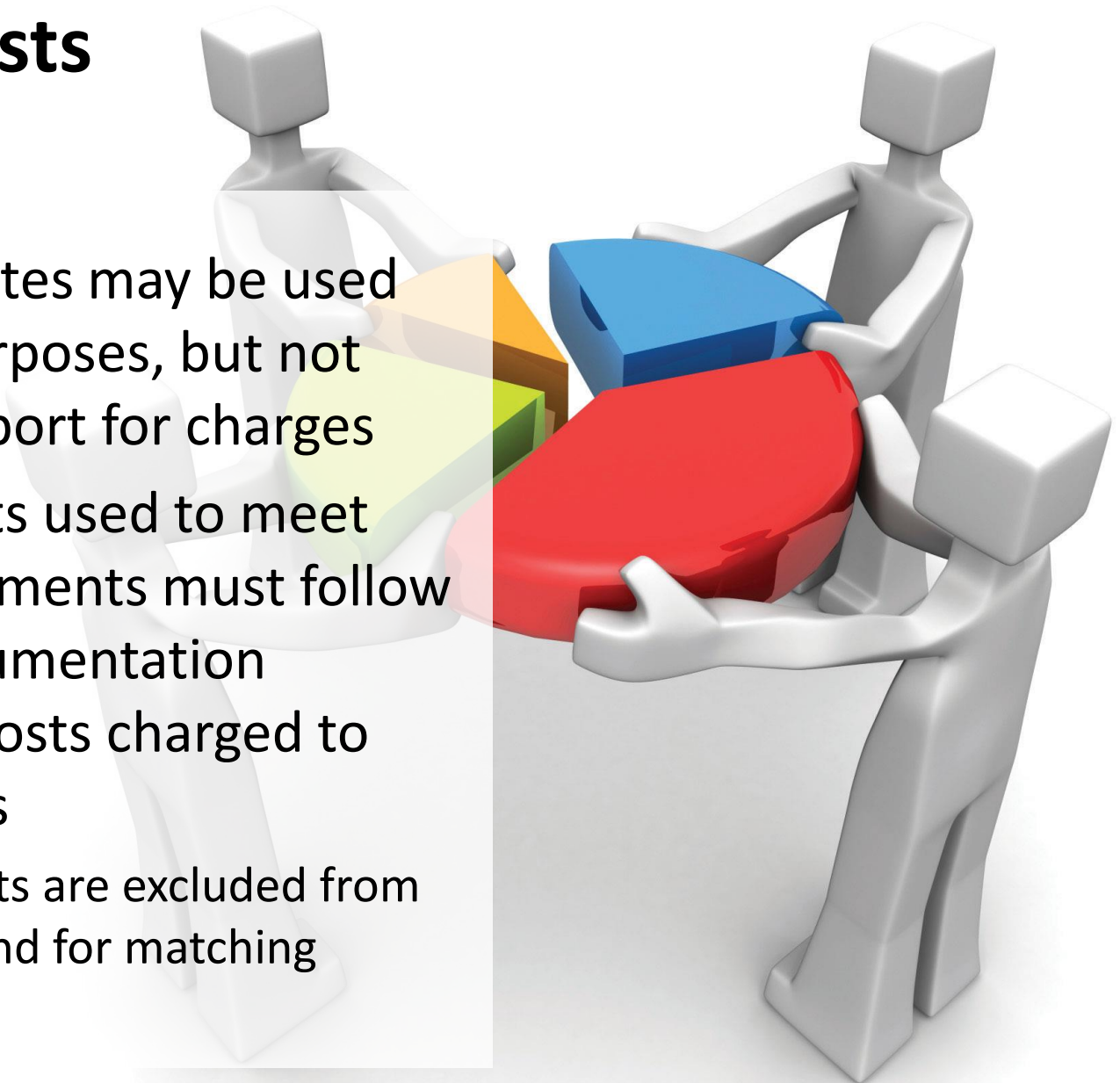
Employee: _____

QTR: 1st

Day	Date	AD	DS	WV	NFP	MC	UW	HMG			Total Actual Hours Worked	PTO	Holiday /Office Closed	TOTAL
								Admin	Program Support	Direct Services				
Sat	18-Jun										0			0
Sun	19-Jun										0			0
Mon	20-Jun										0			0
Tue	21-Jun										0			0
Wed	22-Jun										0			0
Thu	23-Jun										0			0
Fri	24-Jun										0			0
Sat	25-Jun										0			0
Sun	26-Jun										0			0
Mon	27-Jun										0			0
Tue	28-Jun										0			0
Wed	29-Jun										0			0
Thu	30-Jun										0			0
Fri	1-Jul										0			0
TOTAL		0	0	0	0	0	0	0	0	0	0	0	0	0
%		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	na	na	

Personnel Costs

- Budget estimates may be used for interim purposes, but not qualify as support for charges
- Personnel costs used to meet match requirements must follow the same documentation standards as costs charged to federal awards
 - Fringe benefits are excluded from value of in-kind for matching purposes




Equipment and Capital Expenditures



- Capital expenditures must have prior written approval to be charged to the federal grant
- If the organization is instructed by the federal agency to dispose of equipment purchased with federal money, then the disposal costs are allowable

Example & Questions



A person in a blue shirt is holding a smartphone. In the foreground, there is a red calculator and a stack of papers. A white pen is also visible.

Cost Allocation Plans MIECHV Experience

Recently Implemented CAP
CAP Development In-progress
Long-term CAP In-place

Contact Us



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