Definition

Costs
Share
Share
Share
Federal Guidance

- OMB Circular A-87
- OMB Circular A-122
- OMB Circular A-21
- 48 CFR Part 31
- 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
  - Various methods
- Time sampling methods
  - Cognizant agency approval
- Measurable work outputs
- Use 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
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
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
When All Else Fails
What is an Indirect Cost Rate? (ICR)

The ratio, expressed as a percentage, of an indirect cost pool and some direct cost base.

*PBR (Pabst Blue Ribbon*)

Pool/Base = Rate
Indirect Cost \textit{Rate}

- Example:
  - Indirect Cost Pool = $10,000
  - Distribution Base = $100,000
  - (Salaries & Benefits)
  - Indirect Cost Rate = 10\%
Who needs an approved indirect cost rate?

$\text{Single Funding Source}$
Indirect cost rate not needed

$\text{Multiple Funding Sources}$
Indirect cost rate needed
NO APPROVED ICR??

- Must seek approval within 90 days of grant approval
- Where?
  - Cognizant Agency (determined based on Fed. Agency providing largest amount of direct Fed. Funds)
  - If grant is only Federal award, DOL is cognizant
QUESTIONS ???

- Department of Labor
- Office of Cost Determination
- Telephone: 202-693-4100
- “A Guide for Indirect Cost Rate Determination”
Most Common Types of Indirect Cost Rates
Billing Rate

- Rate stated in the award to allow recovery of indirect costs until an indirect cost proposal is completed and submitted.

- Normally only valid for 90 days.
Provisional Rate

- A rate based on projected information, historical information, or a combination of the two for the organization’s fiscal year.

- This rate allows for recovery of indirect costs during the contract/grant period until the rate can be finalized.
Final Rate

- The experienced indirect cost rate based on actual data for the organization’s fiscal year

- All provisional indirect cost rates must eventually be “finalized”
Questions?