



Cost Classification 101

U.S. DEPARTMENT OF LABOR
EMPLOYMENT AND TRAINING ADMINISTRATION

**ARRA GREEN JOB AND HEALTH
CARE / EMERGING INDUSTRIES
NEW GRANTEE POST AWARD
FORUM**

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Topics

- Types of Costs
- Cost Allocation
- Administrative Costs
- Administrative Cost Limits vs Indirect Cost Rates



Cost Classification

- Assign allowable costs to cost objectives
- Costs Assigned
 - Direct charge
 - Allocation
 - Indirect charge
- Type
 - Program or admin
- Recorded and reviewed in general ledger or books of account



Types of Costs

- Direct
 - ⦿ Costs that benefit a single fund source

- Shared Direct
 - ⦿ Costs that benefit multiple fund sources

- Indirect Costs
 - ⦿ Costs incurred for a common or joint purpose
 - ⦿ Benefits more than one fund source
 - ⦿ “Not readily assignable”



Types of Costs

Indirect Costs (contin.)

- Expenses of doing business that are
 - ⦿ Necessary for the general operation of the organization
 - ⦿ Not easily identified with a particular
 - ⦿ Grant or
 - ⦿ Contract or
 - ⦿ Project function or
 - ⦿ Activity



Types of Costs

Indirect Costs (contin.)

- Generally overhead costs of organization

- Allowable to extent
 - ⦿ Contained in Indirect Cost Allocation Plan
 - ⦿ Approved by cognizant Federal agency, if required



Cost Allocation

- Requirements and guidance for cost allocation in the OMB Cost Principles
 - OMB Circular A-21: Higher education
 - OMB Circular A-87: State & local governments
 - OMB Circular A-122: Non-profit organizations
 - 48 CFR Part 31: Commercial organizations



Cost Allocation

- If an expense benefits only one funding source
 - ⦿ Direct charge to that funding source
- If the expense benefits more than one funding source
 - ⦿ Allocate the cost to each funding source that benefits



Cost Allocation

- Costs allocated based on benefit received
- Usually costs are pooled
- Benefit received usually expressed through the application of some formula applied to the pool



Cost Allocation

- Methodology or allocation basis
 - ⦿ Result in equitable distribution
 - ⦿ Correspond to the costs being allocated
 - ⦿ Efficient
 - ⦿ Consistently applied over time

- Methodology or allocation basis, examples
 - ⦿ Activity basis
 - ⦿ Example: bytes of a common intake system
 - ⦿ Item of cost basis
 - ⦿ Example: square footage for building rental



Administrative vs. Program Costs

- Classification based on function

- Program
 - Direct services to participants
 - Enrollees
 - Employers

- Administrative
 - “Not related to the direct provision of workforce services”



Administrative Costs

- Definition, citation, and limit
 - ⊙ In the first section of the grant agreement
 - ⊙ “Administrative costs”
 - ⊙ Reference
 - Workforce Investment Act regulations: 20 CFR 667.220
 - ⊙ Limit
 - Specific to your grant
 - A specific percentage of the total grant award
 - ⊙ Allocable portion
 - ⊙ Necessary and reasonable
 - ⊙ Personnel and non-personnel
 - ⊙ Direct and indirect



Administrative Costs

- Functions and activities listed at 20 CFR 667.220(b)
 - Accounting
 - Budgeting
 - Financial
 - Cash management
 - Procurement
 - Purchasing
 - Property management
 - Payroll functions
 - Audit functions
 - Coordinating the resolution of findings
 - General legal services
 - Developing systems and procedures required for admin functions
 - Performing oversight and monitoring related to administrative functions
 - Goods and services related to admin functions
 - Travel related to admin functions

This list is for information and does not include all items listed at 20 CFR 667.220



Administrative or Program?

Program?	Admin?	Both?	Not Allowable?
1. Security cost		Both	
2. Audit		Admin	
3. Administrative office spaces		Admin	
4. Preparing performance evaluations for staff		Both	
5. Evaluating proposals from subs		Admin	
6. Payroll transactions for program staff		Admin	
7. Plane tickets		Both	
8. Lobbying		Not allowable	
9. Meeting with other directors		Both	
10. Receptionist		Both	
11. HVAC replacement		Both	
12. Birthday cake		Not allowable	



Admin. Limit vs Indirect Cost Rate

- Administrative limit
 - Percentage limit that is specific to your grant
 - A percentage of the total grant award
- Indirect cost rate
 - An indirect cost rate is a device for determining fairly and conveniently (within the boundaries of sound administrative principles) what proportion of indirect cost each program should bear
 - An indirect cost rate is the ratio between the total indirect expenses and some direct cost base



Admin. Limit vs Indirect Cost Rate

- Indirect Cost Rates

- ⊙ Who

- ⊙ Single funding source

- An indirect cost rate is not needed

- ⊙ Multiple funding source

- An indirect cost rate IS NEEDED



Admin. Limit vs Indirect Cost Rate

- Administrative limit

- A limit on the amount of administrative costs charged to the grant
- Denominator: the entire grant award

- Indirect cost rate

- The rate for indirect costs of the organization
- Applicable to the Federal grant
- Denominator: applicable financial basis
 - E.g., direct labor costs



Admin. Limit vs Indirect Cost Rate

- Administrative limit vs indirect cost rate

- Administrative costs for the DOL grant

Grant award 500,000

Admin cost limit of 15% 75,000

Admin costs incurred for the DOL grant

- Direct administrative costs 50,000

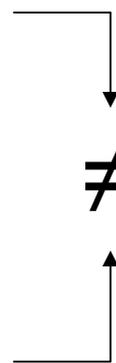
- Indirect cost reimbursement 25,000

- Allocable indirect cost rate

Total direct salaries & wages incurred
for the DOL-ETA grant 150,000

Negotiated ICR of 20% 30,000

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Admin. Limit vs Indirect Cost Rate

INDIRECT

COST

RATE



ADMINISTRATIVE

LIMIT



Questions?

