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Community Action Program Legal Services, Inc.

EVENTS AND TRAININGS
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Cost Allocation: *Red Flags and Remedies*

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Workshop Topics

- Red flags
- A-122 basic requirements
- Costs to be allocated
- Allowable allocation methods
- PARS & documenting costs
- Administrative cost limitations

Your Role?

- CFO/ Fiscal Director
- Executive Director
- Grants Manager
- Other

Your Reality?

- Federally negotiated indirect cost rate?
- Written cost allocation plan?
- Both?
- Neither?

Red Flags

- No written cost allocation plan
- Inconsistent plan implementation
- Allocation based on budget/plan rather than actual info
- PARS breakdown – inadequate support
- Allocation based on availability of funds
- Failure to allocate shared costs to unallowable cost centers

OMB A-122 2 CFR 230

- Only costs which **benefit a cost objective** may be charged to that cost objective
- Cost Objective = service, project, function, award

Appendix A Section 4

Key Terms

- Direct cost
- Shared cost
- Administrative cost
- Indirect cost

Direct Cost

- Costs that can be identified specifically with a function, program, or award (final cost objective)

Example: Costs of employing a Head Start teacher

Shared Cost

- Costs which are cannot be directly identified with a single function/program (final cost objective)
- Costs for which the benefit to various cost objectives must be **estimated**

Shared Cost Examples

- **Rent** for a facility housing multiple programs & functions
- Cost of employing a **teacher** in a classroom with both Head Start & State Pre K students
- Agency-wide **accounting** costs

Administrative Functions

- Board support
- Overall strategic direction
- Financial management
- Human resources
- IT management

Administrative Costs

Costs of performing administrative functions

- Admin costs that benefit whole agency function as **shared costs**
- Admin costs that benefit single cost objective are **direct costs**

Indirect Costs

- Indirect = Shared
- Costs for which the **benefit** to multiple cost objectives must be **estimated**

NICR

- Negotiated Indirect Cost Rate
- Obtained through negotiation with cognizant federal agency
- Must have **direct federal award** in order to obtain a NICR

NICR & Indirect Costs

- Only organizations with an approved NICR may charge a line item called “indirect cost”
- Orgs **without NICR** may be able to **recover shared costs** through **cost allocation** but not by claiming “indirect costs”

NICR Proposals

- A-122 provides multiple methods for calculating **indirect cost rates**
- “Indirect” costs may include both administrative & facilities costs **or** may be limited to administrative costs

Cost Allocation Plans

- Required to substantiate charging any allocated costs to federal awards
- Essential for nonprofits without a NICR
- Nonprofits with a NICR may also need a plan

Cost Allocation Plan Elements

- Definition of direct and shared costs
- Explanation of methods used for allocation
- Justification for allocation methods

Must Allocate Costs to All Cost Objectives that Benefit

- Includes allocation to **unallowable** cost centers
- Example: **Lobbying** cost objective must be allocated share of admin, facilities, & other common costs

What Costs Must Be Allocated

- Costs which provide benefit to **more than 1** cost objective
- Includes costs for **both** program and administrative functions

Allocation is Required When

Establishing a direct association would be costly or impractical:

- Example: Trying to directly track the use of pens or paper clips

Allocation Methods

- Must demonstrate logical connection between the method used and the likely benefit provided by specific costs
- Must be based on **actual** rather than planned occurrences

Common Allowable Methods

- % of time & effort
- % of overall FTEs
- % of square feet utilized
- % of transactions
- % of units of service

Unallowable Methods

- Allocation based on the **availability of funds**
- Allocation based **planned use** of time, space, or money



Documenting Costs

- Must provide **evidence** of the **benefit** provided to specific cost objective in order to substantiate any charge to an award
- Benefit provided by **both** direct & allocated costs must be supported

Is Your PAR Up to Par?

- Personnel Activity Report
- **After-the fact** report of how staff used their time & efforts
- Required for **all staff** whose time will be charged to awards except those included in a NICR

Timesheet ≠ PAR

- Timesheet records **hours worked**
- PAR records **use of time** to accomplish work which benefits specific cost objectives

PAR Needed to Charge

- Costs of employment for employees who:
 - Benefit **only one** cost objective
 - Benefit **multiple** cost objectives
 - Benefit **all** functions **within the CAA**

*Example: Sample Personnel Activity Report
Executive Director*

Example:
Executive Director
fills out a
timesheet.

(Agency Name)
PERSONNEL ACTIVITY REPORT

Employee: Jim Howard Pay Period: 9/1/2012 to 9/14/2012
Position: Executive Director

Date	9/1		9/2		9/3		9/4		9/5		9/6		9/7		9/8		9/9		9/10		9/11		9/12		9/13		9/14		Total
	SA	MO	TU	WE	TH	FR	SA	MO	TU	WE	TH	FR	SA	MO	TU	WE	TH	FR	SA	MO	TU	WE	TH	FR	SA	MO	TU	WE	
A			2	1	4	3									2	1	3	1	3										20
C			3																										3
F			3	2	2								1	2	2	1	2												15
H			3		5											2													10
B				2	1																					2			5
D				2												2		2											6
G					1								1	2		2													6
E													4			5													9
Other - calls, emails			1	1	2	1							2	1	2	2	1												13
Total - Hours Worked			9	11	10	9							10	8	9	11	10												87
Sick Leave																													
Annual Leave																													
Paid Holiday																													
Other																													
TOTAL HOURS			9	11	10	9	8						10	8	9	11	10												95

Work Codes

A. Staff meeting	E. Program mgr meeting
B. Funding source contact	F. IR/IT issue
C. Review grant app	G. Community partners contacts
D. Review financial report	H. Board matters

I Certify that this Information is Correct:


Employee Signature	Supervisor Signature	Checked By:
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SAMPLE FORM

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Wage & Hour Law Impact

- **Non-exempt** employee timesheets may be designed to function as PAR
- **Exempt** employees complete PAR reporting % of effort rather than hours worked



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Beyond Programs/Awards

- Many auditors recommend that PARs include info about the tasks performed as well as the program/award for which effort is expended
- Detailed description not required

Task Examples

- Drove bus for Head Start children
- Determined client eligibility for weatherization services
- Processed accounts payable

PAR is not the only way to allocate personnel costs

May allocate cost of employees providing benefit to multiple cost objectives by:

- % of transactions
- % of units of service
- % of square feet

Allocating Admin Costs

- Distinguish administrative efforts which benefit a single cost objective from those which benefit multiple or all cost objectives

Admin Functions Providing Direct Benefit

- Identify basis for direct benefit
- Example: Finance Director spends 20% of time in a pay period addressing issues related to Head Start finding

Shared Admin Costs: Admin Functions which Benefit all Cost Objectives

Examples:

- Board support
- Overall budget development
- Redesign of accounting system
- Revising employee handbook

Allocating Shared Admin Costs

Consider factors that indicate demand on admin effort

- # of financial transactions
- # of staff members
- % of FTE's

Allocating Shared Admin Costs

- May use different allocating factors for different positions or functions
- Must base allocation on **actual** numbers rather than budget or plan

Admin Cost Limitations

- Some funding sources impose % or \$ **limits on admin costs**
- Admin costs must be **fairly allocated regardless of limits**
- **Result:** allocated costs in excess of funder limit must be covered with unrestricted \$\$\$

May Not Shift Costs

- Fairly allocated costs which exceed funder limitations may not be shifted to other federal sources
- Must document the use of unrestricted funds to cover these “excess” costs



Cost Center Structure May Help

- Requirement for fair allocation based on benefit to **cost objectives**
- Cost objective may be defined as a service, project, or award

Use of Program as Cost Objective

- Allocate shared cost at program level
- Multiple funding sources may fund one program
- Use discretion in distributing shared costs among multiple sources

Your Next Steps

- Review cost allocation plan
- Review PAR approaches
- Rethink allocation methods
- Verify use of actual rather than budget or plan info
- Test implementation of plan

Additional Resources

Webinars:

- PARs (Personnel Activity Reports): The Do's and Don'ts
www.capl原因.org/conferencesandtrainings/webinars.html#financial
- Today's Webinar: Cost Allocation: Red Flags & Remedies
www.capl原因.org/conferencesandtrainings/webinars.html#financial

PARS and Cost Allocation Toolkits:

Available soon on the CAPLAW website and in the Community Action Partnership's *Resource Bank* (www.csbqta.org)



