



NYC Administration for Children's Services

**Administrative Advisory for a
Cost Allocation Plan**

Fiscal Year 2017

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Introduction

When NYC Children's Services (ACS) contracts with a nonprofit organization for a specific purpose, its intention is that the funds will be used solely for that program and no other funds may be used for the same purpose. However, some nonprofits receive two or more contracts from ACS or from more than one city, state or federal government and resources are shared; a Cost Allocation Plan (CAP) is used to manage how resource are shared and accounted for among the funding sources.

A CAP is required based on your contractual agreement with ACS as well as federal OMB Uniform Guidance - UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (CFR 200.405(d)), the Department of Health and Human Services (Part 75.405(d)). These documents determine allowable costs, reporting of direct and indirect costs and audit guidelines.

The purpose of this document is to provide general information, guidance and methods of cost allocation principles to nonprofits that have contractual agreements with ACS and have other sources of funding and share resources which require a CAP. A CAP is a written account of the methods used by an organization to allocate costs to its various funding sources. It is the process of assigning two or more programs the costs of an item shared by the program. The goal is to ensure that each program bears its fair share and only its fair share, of the total cost of the item. The plan is the roadmap for reporting costs items. Regular reporting should incorporate and reflect the structure of the CAP.

A Direct and Indirect Cost Allocating Plan is the foundation of a CAP and should be the starting point in establishing a CAP. The CAP will become the document that identifies, accumulates and distributes allowable direct, indirect and dual/joint costs under ACS contracts and shows the relationship to other city, state, federal and private grants and will identify the allocation methods used for distributing costs to the various funding streams.

A plan for allocating joint costs is required to support the distribution of those costs to the various funding streams. Accounting records to determine which funding sources the eventual expenditures were charged to must support all costs included in the plan.

A CAP is successfully created by using logical and rational methods and ensures each program is paying only its fair share and the cost of an item used in common and that no program is subsidizing another.

Nonprofits should be aware of all the administrative requirements federal, state, private grants and other city funded contracts have, which they cannot deviate from. These funding sources also have their own CAP requirements.

Audit Requirements

As part of an audit of your financial statements an auditor will investigate to see whether any resources in your organization are being shared by two or more programs. If there are resources that fall into these criteria, the auditor will ask for an explanation of how the costs are allocated among the programs. A CAP provides the auditor with a clear description of how this is

accomplished. The auditor will analyze the methods used to allocate costs amongst the various funding sources and determine their adequacy and appropriateness. If the auditor is convinced that the methods and their application have resulted in the reasonable allocation of costs, no further action is necessary. However, if the methods are flawed or inappropriately applied, such costs could result in an audit noncompliance and disallowed. Every year your CAP should be updated to reflect any changes that occurred within your organization. The updated copy should be available upon request.

When is a CAP needed?

1. An organization whose program is entirely one funding source.
 - a. No cost allocation plan is needed.
2. An organization that operates two or more separate and distinct programs with separate funding sources. For example, Head Start and Child Care.
 - a. Child Care and Head Start provided separately.
 - b. No shared programmatic staff, facilities, etc.
 - c. Costs are kept separate.
 - d. Shared centrally administrative staff, supplies and facility.
 - e. Cost Allocation Plan is needed.
3. An organization that has two or more programs with separate funding sources which it operates as a single program.
 - a. Single program with shared staff, facilities and other costs.
 - b. Supported by multiple sources of funding.
 - c. Cost Allocation Plan needed for centrally administrative staff, supplies and facility.

Basic Cost Allocation Analysis

1. Identify funding sources.
2. Identify services to be provided.
3. Identify clients to be served.
4. Identify the relationship, if any, between various programs.
5. Determine appropriate basis for cost allocation plan.

Cost Allocation Plan Requirements

1. Cost Allocation Plan should be the simplest, most straight forward way of allocating costs fairly. Avoid complex highly detailed plans.
2. Document the fair allocation of costs among funding sources.
3. Plans stated in terms of percentage or fractions of costs are acceptable.
4. Must be a way to reasonably establish the basis for the allocation.
5. Includes allocation of major cost center – departments.
6. The nature of and use of each cost determines the methodology for the allocation of costs.
7. Any method of distribution may be used which will produce an equitable distribution of costs, except a cost allocation plan is not determined by the quantity of programs budget compared to an organization's total budget.

8. Cost Allocation Plan must:
 - a. Provide detail information on the sources of revenue for the program, supported by historical or other data to substantiate the amounts.
 - b. Provide a projection of the total enrollment in the organization, which supports the revenue to be received.
 - c. Include description of the methodology used to determine the allocation of the costs of services to the various funding sources.
 - d. Include the basis for allocating cost within specific cost categories, personnel, space, supplies, etc, and a description of how expenditures with the major categories will be apportioned and recorded in the accounting system.
 - e. For each cost, i.e. salaries, fringe, rent, equipment, supplies, etc, a decision must be made about whether each element of cost will be allocated as direct, indirect and dual/joint costs.
 - f. Cost allocation methodology must assign cost proportionally and equitably to applicable funding sources.

Cost Allocation Plan Development

1. Obtain Organizational Charts
 - a. Accurate Organizational Charts are important for determining your organization's function and staff responsibilities.
 - b. Determining who does what and who reports to whom.
 - c. Ensuring that all administrative overhead functions are identified.
 - d. Shows oversight agencies how an organization works and changes that might occur during reorganization.
2. Interview Staff
 - a. Key organization staff should be interviewed to provide justification for cost pool development and allocation methodologies.
 - b. This is the best or only way to truly understand certain functions and how they support other functions within your organization.
3. Obtain Financial Information
 - a. Determining organization's capabilities for reporting is important to determining how you will develop specific cost pools. You need to be able to quantify activities.
 - b. Payroll systems often provide personnel detail accurate enough to assign personnel payroll to cost pools.
 - c. When choosing financial data sources, ensure data integrity and auditable supporting documentation.
 - d. A chart of accounts listing possible expense items and a review of the general ledger may assist you in identifying all of the different elements of cost for your organization.
4. Develop Funding Hierarchy
 - a. It is critical that your cost allocation have a process for consistently determining where to allocate costs that benefit more than one program objective.
 - b. It is important to ensure that costs are consistently and appropriately charged to appropriate cost centers.
5. Understanding Program Regulation

- a. Understand contract requirements, regulations and limitations of each funding source.
- b. Review appropriate cost principles and administrative requirements (CFR 200.405(d)).
6. Drawing activity by location
 - a. Will assure all activities at all locations are included. The drawing should include the following:
 - i. Whether the building is leased or owned and for how long.
 - ii. Activities and staff positions located in each building by activity.
 - iii. Total square footage, square footage by activity and square footage for each staff for each location.
 - iv. Square footage for common areas such as bathrooms, break rooms, hallways etc, at each location.
 - v. A narrative describing the purpose/activities that occur at each location and listing of direct, nondirect, dual/joint staff for each activity.
7. Construct a Plan
 - a. In developing a plan be mindful that its format will need to ensure clear audit trail expenditures and be compatible with other internal systems.
8. Submitting a Plan
 - a. Need a cover letter.
 - b. Plan Narrative.
 - c. Methodology Narrative.
 - d. Documentation of Plan.
 - e. Organizational Chart
 - f. Spreadsheets.

Submission Requirements

All cost allocation plans submitted to ACS for review and approval must include the above items listed under “Submitting a Plan” along with the following:

- Direct and Indirect Cost Allocating Plan for costs which affect ACS as well as other funding sources.
- Description of the types of services and programs provided at each center or facility.
- All documentation mentioned above along with accepted cost allocation plan must be maintained on-site for audit purpose.

If your organization has developed a Direct and Indirect Cost Allocating Plan, then your organization can use this plan as the foundation of your CAP plan. Direct and Indirect Cost Allocating Plan can be used by adding funding to the various cost associated with what is considered Direct and Indirect. If your organization has no Direct and Indirect Cost Allocating Plan, then one should be developed before a Cost Allocation Plan is developed.

Cost Allocation

Cost allocation is the process of assigning to two or more programs the costs of an item or cost shared by more than one program or contract. The goal is to ensure each program bears its fair share, and only its share of the total cost of the item.

Cost Pools

Cost pools is the process of accumulating costs into pools associated with the provision of service which can be pooled together to be allocated to a funding stream. Similar allocable costs which may be combined to simplify the allocation process should be pooled. Cost pools can be established for:

- Facility related items such as supplies, contract, janitorial and other facility overhead costs would be recorded.
- Administrative related items such as receptionist costs, supplies, contracts, telephone and other administrative overhead costs would be recorded.

Measuring Benefit

Measuring benefit is the central task performed by allocating costs. Costs are allocated to a particular program based the on benefits received by that program. When the direct measurement of a benefit cannot be done then it is appropriate to pool costs. This is a method that can be used to allocate the joint/dual and/or indirect cost to administration. The cost pool basis should not distort the results.

Allocability

To be allocable to a particular funding source, a cost must be treated consistently with other cost incurred for the same purpose in like circumstances. Any cost allocated to a particular funding source under these principles may not be shifted to other funding sources to cover funding deficiencies to avoid restrictions imposed by law or grant agreement, or for other reasons. Costs prohibited by a funding source may not be paid or used as offsets to other funding sources.

Allowability

To be allowable, a cost must be necessary and reasonable for the proper and efficient operation of the program. Organizations should carefully review anticipated program expenditures, the terms and conditions award, and applicable regulations before any program costs are incurred.

Reasonableness

Costs should not exceed those that would be incurred by a prudent person under the same circumstances.

Direct Cost/ Program Cost

Direct costs are those expenses that can be specifically attributed to a particular program. Program costs include, but not limited to:

- Personnel and non-personnel costs directly associated with the delivery of program services,
- Training and transportation for staff, parent and volunteers;
- Cost directly associated with the delivery of program services through the direction, coordination or implementation of a specific program;

- Costs of the salaries of program coordination, janitorial and transportation staff involved in program efforts;
- Costs associated with parent involvement and volunteer services;
- Costs related to program staff functions, such as the allocable costs of fringe benefits, travel, per diem, transportation, food, center/classroom supplies, equipment, parent activities fund, insurance, and the occupation, operation and maintenance of program space, including utilities.

Indirect/Administrative costs

Indirect costs are expenses that are not direct expenses and are generally management related and considered administrative in nature such as utilities/facilities. Because of differences among organizations it is impossible to classify cost that will be indirect in all situations. However, a cost may not be allocated as an indirect cost if that cost or any other cost incurred in the same circumstance has been already assigned to the program as a direct cost.

Administrative costs include, but are not limited to costs related to the overall management of the program. These costs can be in both personnel and non-personnel categories such as:

- Organization-wide management functions are to be classified as administrative costs. These functions include planning coordination and direction; budgeting, accounting and auditing; and management of purchasing, property, payroll and personnel.
- Administrative costs include, but not limited to, salaries of the executive director, personnel office, fiscal officer/bookkeeper, purchasing officer, payroll/insurance/property clerk, janitor for administrative office space, and costs associated with volunteers carrying out administrative functions.
- Administrative costs include expenses related to administrative staff functions such as the costs allocated to fringe benefits, travel, per diem, transportation and training.
- Administrative costs include expenses related to bookkeeping and payroll services, audits and bonding: and to the extent they support administrative functions and activities, the costs of insurance, supplies, copy machines, postage, and utilities and occupying, operating and maintaining space.

Dual/Joint Benefit Costs

Some costs benefit the program components as well as administrative functions within the program. In such cases, organizations must identify and allocate appropriately the portion of costs that are programmatic and administrative.

Dual benefit costs include, but not limited to:

- Salaries, benefits and other costs such as travel, per diem and training costs, of staff that perform both program and administrative functions. Organizations must determine and

allocate appropriately the part of these costs dedicated to programmatic and administration.

- Space cost, and costs related to space, such as utilities, are frequently dual benefit costs. Organizations must allocate appropriately the amount or percentage of space dedicated to programmatic and administrative.

Below is an example a Cost Allocation Plan for an organization that has several funding sources.

Documentation Requirements for a Cost Allocation Plan

A. Cover Letter

The cover letter should state that your organization is submitting a Cost Allocation Plan to demonstrate how your organization is allocating costs to its various funding sources and how those funding sources support the operation of your organization. The CAP should also ensure that each funding source bears its fair share and only its fair share, of the total cost of the item. The letter should also state the total budget of the organization and the break down of the budget between Personnel and Other Than Personnel Services. It should also identify the fiscal year the plan is for and when it was approved by the Board, before it was implemented into your accounting system. Below is a sample of a cover letter.

Dear ACS Budget Director;

The XYZ Child Care Organization is submitting its Cost Allocation Plan for Fiscal Year 2016 for your review and approval. We are submitting this plan for your approval of our methodology on allocating costs between direct/program and indirect/administrative and the various funding sources that support those costs. The CAP will also demonstrate how each funding source is allocated its fair share of all costs. Our methodologies are tailored to fit the specific polices of our organization and are reviewed each year in order to ensure they are consistent in the manner we operate programmatically and financially. This plan was approved by our Board on July 24, 2015 and was implemented into our accounting system on July 25, 2015. Our organization is a multi-funded program with an over all budget of \$2,578,965 which includes the following funding sources; Head Start, Child Care, UPK-DOE and CACFP. We serve 143 children in two sites. The Personnel Services (PS) budget amounts to \$1,581,310 while the Other Than Personnel Services (OTPS) is \$997,655. Based on our Direct and Indirect Cost Allocating Plan our administrative rate is 12%. Below is the funding of our program and as mentioned in your Administrative Memo on Cost Allocation.

Figure 1: *XYZ Budget*

XYZ Head Start Budget		Programmatic	Administrative
PS	Budget	Direct	Indirect
Head Start	\$677,274	\$574,834	\$102,440
Child Care	\$672,228	\$573,070	\$99,158
UPK	\$110,655	\$92,175	\$18,480
CACFP	\$121,153	\$103,345	\$17,808
Total	\$1,581,310	\$1,343,424	\$237,886
OTPS			
	Budget	Direct	Indirect
Head Start	\$148,977	\$126,901	\$22,076
Child Care	\$177,791	\$154,276	\$23,515
UPK	\$115,739	\$97,245	\$18,494
CACFP	\$555,148	\$548,798	\$6,350
Total	\$997,655	\$927,220	\$70,435
Total			
	Budget	Direct	Indirect
Head Start	\$826,251	\$701,735	\$124,516
Child Care	\$850,019	\$727,346	\$122,673
UPK	\$226,394	\$189,420	\$36,974
CACFP	\$676,301	\$652,143	\$24,158
Total	\$2,578,965	\$2,270,644	\$308,321
Programmatic		\$2,270,644	88%
Administrative		\$308,321	12%
Total		\$2,578,965	

B. Plan Narrative

The plan narrative is the introduction of the Direct and Indirect Cost Allocating Plan which summarizes the methodologies and procedures to be used to allocate costs between program and administrative costs. Below is a sample of a narrative.

The purpose of this Cost Allocation Plan is to summarize, in writing the methods and procedures that this organization will use to allocate its costs to the various funding sources supporting our organization. This organization will be adhering to administrative requirement of PART 200—UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (CFR 200.405(d)), which requires non-profit organizations to report direct and indirect costs.

The Cost Allocation Plan is based on allowable costs of (CFR 200.405(d)), which treat all costs as direct except general administrative which is considered indirect and dual benefit costs.

The Cost Allocation Plan distributes costs ensuring that each program bears its fair share of the total cost of that item.

C. Methodology Narrative

The methodology narrative describes how an organization will allocate costs to the various funding sources.

The general methodology approach XYZ Child Care Organization will follow for allocating costs to a particular category is as follows:

Direct costs are those expenses that can be specifically attributed to a particular program and its various funding sources.

Indirect cost is all of the expenses that are not direct expenses which are generally management related and considered administrative in nature such as utilities/facilities. These costs will be prorated on the most appropriate methodology that distributes the cost equitably among its various funding sources.

Dual costs are costs that benefit the program components as well as administrative functions within the program. In such cases, these costs will be identified and allocated appropriately the portion of costs that are programmatic and administrative to the various funding sources.

D. Documentation of Plan

The following information summarizes the procedures that will be followed by XYZ Child Care Organization beginning Month/Day/Year:

1. Personnel Costs – Documented with timesheets showing time distribution for all employees and allocated based on time spent on program and administration to the appropriate funding sources.
 - a. Fringe benefits (FICA) are allocated in the same manner as salaries and wages.
 - b. Vacation, holiday and sick pay are allocated in the same manner as salaries and wages.
2. Rent and Utilities – Allocated based on usable square footage. The total square footage occupied by program and its various funding sources overall to total square footage, will produce the percentage occupied by program. The same will be done for administration and these percentages will be used to allocate the costs associated with the above costs.
3. Maintenance and Repairs – Documented based on purchase orders that identify what repairs were performed and for what area.
 - a. Use the service hours of cost to allocate expenses to the various funding sources when the costs are joint.
 - b. Costs that are specific will be charged directly when appropriate.
4. Communication (Telephone, internet and fax machines) – Invoices are used to document the costs.
 - a. Use the service hours of cost to allocate expenses to the various funding sources when the costs are joint.
 - b. Costs that are specific will be charged directly when appropriate.

5. Equipment - – Documented based on purchase orders that identify who purchased the equipment.
 - a. Use the service hours of cost to allocate expenses to the various funding sources when the costs are joint.
 - b. Costs that are specific will be charged directly when appropriate.
6. Supplies - Documented based on purchase orders that identify who purchase what supplies and for what purpose.
 - a. Use the service hours of cost to allocate expenses to the various funding sources when the costs are joint.
 - b. Costs that are specific will be charged directly when appropriate
7. Training and Staff Development - - Documented based on purchase orders that identify who received training and for what purpose.
 - a. Use the service hours of cost to allocate expenses to the various funding sources when the costs are joint.
 - b. Costs that are specific will be charged directly when appropriate
8. Consultant Services – Invoices and contracts for the contracted individual or companies must be maintained.
 - a. Use the service hours of cost to allocate expenses to the various funding sources when the costs are joint.
 - b. Costs that are specific will be charged directly when appropriate
9. Administrative Contractual –
 - a. Administrative Contracts for accounting, management planning, ADP, etc. are considered indirect in nature.
10. Local Travel – Is budgeted for Staff and clients and can be either direct or indirect.
11. Audit fees - The Single Audit can be allocated both to direct and indirect based on the percentage of direct/indirect to the total cost and allocated to the various funding sources.
12. Insurance – Insurance needed for a particular program is charged directly to that program and is allocated based on the percentage of direct/indirect to the total cost.

E. Spreadsheets

Add spreadsheet to show examples of the allocation methodology described above.

The spreadsheets attached which relate to Personnel should have the names of the staff and whether they are direct and indirect staff.

Glossary

Administrative Services – activities relating to the oversight and management of a program.

Allocate – is to determine and distribute according to plan.

Audit – an examination of financial records and procedures by an independent CPA in accordance with prescribed guidelines to ascertain the validity and accuracy of the financials.

Auditee – any non-federal entity that expends federal awards must be audited.

Cost Allocation Plan - is a written account of methods used by an organization to allocate costs to its various funding sources.

Direct Costs – an expense specifically associated with and identified by program, project or activity.

Indirect Cost – costs that not readily identifiable with a particular aspect of organizational operations (sometimes called overhead or administration).

Joint / Dual cost – costs that benefit the program and administrative components of a program.

Methodology – a system of principles, procedures, and practices applied within a discipline.

Nonprofit Organization – is a legally constituted organization whose goal is to uphold or participate in activities of public or private interest without any monetary profit.

Program Services – activities or projects accomplishing the purpose for which the organization was established.