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Introduction

A Cost Allocation Plan (CAP) is a written account of the methods used by the organization to allocate costs to its various funding sources. When NYC Administration for Children’s Services (ACS) contracts with a non-profit organization/subrecipient for a specific program, the intention is that the funds will be used solely for that program and that no other funds may be used for the same purpose. However, some organizations receive two or more contracts from ACS as well as from other city, state or federal government and resources are shared. A CAP is used to manage how resources are shared and accounted for among the funding sources.

A CAP is required based on subrecipient’s contractual agreement with ACS as well as the federal OMB Uniform Guidance - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (CFR 200.405(d)) which is codified by the Department of Health and Human Services in CFR Part 75.405(d). These regulations determine allowable costs, reporting of direct and indirect costs and audit guidelines. ACS subrecipients are required to submit Cost Allocation Plans to their respect Budget Analysts.

The purpose of this advisory is to provide general information, guidance and methods of cost allocation for subrecipients with ACS contractual agreements and other sources of funding and shared resources which require a CAP. The goal is to ensure that each program bears its fair share of the total cost of any item and the plan is the roadmap for reporting costs. Regular reporting should incorporate and reflect the structure of the CAP. A CAP can be successfully created by using logical and rational methods which ensure each program is paying only its fair share of the cost of an item used in common and that no program is subsidizing another.

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 is 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 while identifying 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 that determine which funding sources expenditures were charged to must reflect all costs included in the plan.

organizations should be aware of the administrative requirements for federal, state, private grants and other city funded contracts which cannot be deviated from. Each of these funding sources have respective CAP requirements.
The Head Start Act
When there is collaborative activity between Head Start and another Federal child care or early childhood education program, the costs of shared resources in two cost categories, equipment and non-consumable supplies, do not have to be allocated between the programs, so long as Head Start is the predominant source of funding for the activity (Head Start Act Section 640 (a)(5)(E)(ii)).

Cost Allocation
Cost allocation is the process of assigning to two or more programs the cost of a shared item or service. It is achieved by using statistical data or metrics that measure the usage of a service or the relative benefit received. The goal is to ensure that each program bears its fair share of the total cost. “Total Cost” is composed of the sum of the allowable direct costs and allocable indirect costs, less any credits. The purpose of a CAPs are as follows:

- They are often the only way to determine the cost of operating programs;
- The subrecipient is able to ensure that all allowable costs are being incurred by the organization; and
- The subrecipient can provide valuable management data regarding funding levels and time spent on activities (when time and effort reporting is also employed).

Allocability
In order to be allocable to a particular funding source, a cost must be treated consistently with other costs incurred for the same purpose in like circumstances. Under these principles, costs allocated to a particular funding source may not be transferred to other funding sources to cover funding deficiencies so that restrictions imposed by law or grant agreement may be avoided, or for other reasons. Costs prohibited by a funding source may not be paid or used as offsets to other funding sources.

Allowability
Allowable costs must be necessary and reasonable for the proper and efficient operation of the program. The subrecipient should carefully review anticipated program expenditures, the terms and conditions of any 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.

Measuring Benefits
The measuring of benefits is the central task performed by allocating costs. Costs are allocated to a particular program based on the benefits received by that program. When the direct measurement of a benefit cannot be achieved, 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.

Cost Pools
A cost pool is the accumulation of costs into pools associated with the provision of service which can be lumped together and 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, contracts, janitorial and other facility overhead costs should be recorded.

- Costs for administrative-related items such as receptionist, supplies, contracts, telephone and other administrative overhead costs should be recorded.

Cost Objective
A “Cost Objective” is a particular award, contract, grant, project, service, or other activity of an organization for which cost data are desired and for which provision is made to accumulate and measure the costs.

Direct Cost/ Program Cost
Direct costs are those expenses that can be specifically attributed to a particular program. Typical costs charged directly to a program are the compensation of employees assigned to the program, their fringe benefit costs, the costs of materials and other items of expense incurred for the program. Program costs include, but are not limited to:

- Personnel and non-personnel costs directly associated with the delivery of program services;
- Training and transportation for staff, parents and volunteers;
- Costs directly associated with the delivery of program services through the direction, coordination or implementation of a specific program;
- Costs of the salaries for program coordination, janitorial services and transportation staff involved in program efforts;
- Costs associated with parent involvement and volunteer services; and
- Costs related to program staff functions, such as the allocable costs of fringe benefits, travel, per diem, transportation, food, center/classroom supplies, equipment, parent activity fund, insurance, and the occupation, operation and maintenance of program space, including utilities.

Indirect/Administrative costs
Indirect costs are those costs that have been incurred for common or joint objectives and cannot be identified with a particular final cost objective. A cost may not be allocated as an indirect cost
if that cost, or any other cost incurred in the same circumstance, has already been assigned to the program as a direct cost. Indirect costs shall be classified into two broad categories:

- Facilities
- Administration

**Facilities include:**
- Depreciation on buildings
- Interest on debt associated with certain buildings
- Shared common areas
- Janitorial expenses
- Operations and maintenance expenses

**Operations and maintenance expenses include:**
- Janitorial and utility services
- Repairs or alterations of buildings’ furniture or equipment
- Care of grounds
- Maintenance and operations of buildings/other facilities
- Security
- Cross allocations from other pools, as applicable
- Hurricane and disaster preparedness
- Environmental safety
- Property liability and other insurance relating to property
- Space and capital leasing
- Facility planning and management
- Central receiving

**Administration includes:**
Administrative costs include, but are not limited to, general administration and general expenses that have been incurred for the overall general administrative and executive offices of the organization and other expenses of a general nature which do not relate solely to any major function of the organization.

**These costs can be related to 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 are 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.

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• 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.

All other types of expenditures not listed specifically under one of the sub-categories of “Facilities” (including cross allocations from other pools).

**Dual/Joint Benefit Costs**
Some costs benefit program components as well as administrative functions within the program. In such cases, the organization must identify and appropriately allocate the portion of costs that are programmatic and administrative.

Dual benefit costs include, but are 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 appropriately allocate the portion of these costs dedicated to programmatic and administrative.

• Space costs and other related costs, such as utilities, are frequently classified as dual benefit costs. The subrecipient must appropriately allocate the amount or percentage of space dedicated to programmatic and administrative.

**When is a CAP Required**
A CAP is not required for an organization with a program that is funded entirely from one source.

A CAP is required for:

1. An organization with separate funding sources that operates two or more separate and distinct programs. For example, Head Start and Child Care operating as:
   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.

2. An organization with separate funding sources and two or more programs which operate as a single program.
a. Single program with shared staff, facilities and other costs;
b. Supported by multiple sources of funding;
c. A CAP is required for central administrative staff, supplies and facilities.

**Basic Cost Allocation Analysis**
- Identify funding sources;
- Identify services to be provided;
- Identify clients to be served;
- Identify the relationship, if any, between various programs; and
- Determine appropriate basis for the cost allocation plan.

**Allocation Bases**
This is the methodology or statistical measure by which indirect costs are distributed to other benefiting services and/or cost objectives. Examples may include:
- Number of active employees;
- Number of transactions processed;
- Square footage occupied;
- Salaries and wages of units supervised; and
- Direct Assignment

**Cost Allocation Plan Requirements**
A CAP should be the simplest and most straightforward way of allocating costs fairly. The nature and the use of each cost determines the methodology for the allocation of costs.

- Document the fair allocation of costs among funding sources;
- Outline the CAP in terms of percentage or fractions of costs;
- Establish the basis for the allocation in a reasonable way;
- Include allocation of major cost centers/departments;
- Avoid complex highly detailed plans.

Any method of distribution may be used which will result in an equitable distribution of costs. However, a CAP is not determined by the size of a program budget compared to an organization’s total budget.

A Cost Allocation Plan must:
- Provide detailed information on the sources of revenue for the program, supported by historical or other data to substantiate the amounts;
• Provide a projection of the total enrollment in the organization, which supports the revenue to be received;

• Include a description of the methodology used to determine the allocation of the costs of services to the various funding sources;

• Include the basis for allocating costs within specific cost categories, personnel, space, supplies, etc., and a description of how expenditures within the major categories will be apportioned and recorded in the accounting system;

• 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.

• Use a methodology which assigns cost proportionally and equitably to applicable funding sources.

Cost Allocation Plan Development
1. Obtain organizational charts
   • Accurate organizational charts are important for determining your organization’s function and staff responsibilities.
   
   • They determine who does what and who reports to whom.
   
   • They ensure that all administrative overhead functions are identified.
   
   • They show oversight agencies how an organization works as well as changes that might occur during reorganization.

2. Interview Staff
   • Key organization staff should be interviewed to provide justification for cost pool development and allocation methodologies.
   
   • 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
   • Determining an organization’s capabilities for reporting is important for the development of specific cost pools.
   
   • Quantify activities.
Payroll systems often provide personnel detail accurate enough to assign personnel payroll to cost pools.

When choosing financial data sources, ensure data integrity by using supporting documentation that has been audited.

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
   - It is critical that, as part of your cost allocation, you have a process for consistently determining where to allocate costs that benefit more than one program objective.
   - It is important to ensure that costs are consistently and appropriately charged to appropriate cost centers.

5. Understanding Program Regulations
   - It is important to understand contract requirements, regulations and limitations of each funding source; and
   - Review appropriate cost principles and administrative requirements (CFR 45 Part 75.405 or 2 CFR 200.405(d)).

6. Drawing activity by location will ensure that 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 allocated for each staff member at each location;
   iv. Square footage for common areas such as bathrooms, break rooms, hallways etc., at each location; and
   v. A narrative describing the activities/purpose that occur at each location and a listing of direct, indirect, dual/joint staff for each activity.

7. Construct a Plan
   - When developing a plan, be mindful that its format should ensure a clear audit trail for expenditures and be compatible with other internal systems.

8. Submit a plan
   - Include a cover letter;

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• Develop a plan narrative;
• Develop a methodology narrative;
• Document the plan;
• Include an organizational chart; and
• Include spreadsheets.

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

➢ Direct and Indirect CAP for costs which affect ACS, as well as other funding sources;
➢ Description of the type of services and programs provided at each center or facility; and
➢ All documentation mentioned above, along with the accepted CAP, must be maintained on-site for audit purposes.

If your organization has developed a Direct and Indirect CAP, this plan can be used as the foundation for your CAP plan. A Direct and Indirect CAP can be used by adding funding to the various costs associated with what is considered Direct and Indirect. If your organization has no Direct and Indirect CAP, then one should be developed before a CAP is developed.

Audit Requirements
As part of an audit of financial statements, an auditor will investigate whether any resources in your organization are being shared by two or more programs. If there are resources that meet this 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 the application of the methods 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 subsequently disallowed. Every year, your CAP should be updated to reflect any changes that occurred within your organization. The updated copy should be made available upon request.
Documentation Requirements for a Cost Allocation Plan

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

A. Cover Letter

The cover letter should state that your organization is submitting a CAP to demonstrate how your organization is allocating costs to its various funding sources and how those funding sources support the operations of your organization. The CAP should also ensure that each funding source bears its fair share of the total cost of the item. The letter should also state the total budget of the organization and the breakdown of the budget between “Personnel” (PS) and “Other Than Personnel Services” (OTPS). The fiscal year for the CAP should also be identified, along with evidence of approval 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 (CAP) for Fiscal Year 2019 for your review and approval. We are submitting this plan for your review of our methodology in 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 methodology is tailored to fit the specific policies of our organization and is reviewed each year in order to ensure that it is consistent with the manner we operate programmatically and financially. This plan was approved by our Board on July 24, 2018 and was implemented in our accounting system on July 25, 2018. Our organization is a multi-funded program with an overall budget of $2,578,965 which includes the following funding sources: Head Start, Child Care, UPK-DOE and CACFP. We serve 143 children at two sites. The Personnel Services (PS) budget amounts to $1,581,310 while the Other Than Personnel Services (OTPS) budget is $997,655. Based on our Direct and Indirect Cost Allocating Plan our administrative rate is 12%. The table below shows funding for our program:
B. Plan Narrative

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

The purpose of this Cost Allocation Plan (CAP) is to summarize, in writing, the methods and procedures that this organization will use to allocate costs to the various funding sources supporting our organization. This organization will adhere to CFR 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 CAP is based on allowable costs under CFR 200.405(d), which treat all costs as direct, except general administrative, which are considered indirect and dual benefit costs. The CAP distributes costs ensuring that each program bears its fair share of the total cost of each item.

C. Methodology Narrative

The methodology narrative describes how an organization will allocate costs to the various funding sources.
The general methodology approach XYZ 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 costs are expenses that are not direct expenses, generally management related and considered administrative in nature, such as utilities/facilities. These costs will be prorated using the most appropriate methodology that distributes the costs equitably among the various funding sources; and

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

D. **Documentation of Plan**

The following points summarize the procedures that will be followed by XYZ Organization, beginning Month/Day/Year:

1. **Personnel Costs**: Documented and supported by timesheets showing time distribution for all employees and allocated based on time spent on program and administration according to the appropriate funding sources.
   
   a. Fringe benefits (FICA) are allocated in the same manner as salaries and wages; and

   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 the program and its various funding sources overall to total square footage, will produce the percentage of space occupied by program. The same process will apply to administration and these percentages will be used to allocate the costs associated with rent and utilities.

3. **Maintenance and Repairs**: Documented based on purchase orders that identify what repairs were performed at facilities occupied by the program.

   a. Use the cost of service hours 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): The costs are documented on invoices.
   a. Use the cost of service hours 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 cost of service hours 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 cost of service hours 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 cost of service hours 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 cost of service hours 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*: This is budgeted for staff and clients and can be either direct or indirect.

11. *Audit fees*: Fees for the Single Audit can be allocated both to direct and indirect, based on the percentage of direct/indirect to the total cost, then allocated to the various funding sources.

12. *Insurance*: Insurance required 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 Services should have the names of all staff and indicate whether they are direct and indirect staff.
Definitions

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

Allocate: 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 an organization’s financials.

Auditee: Health and Human Services contracts must be audited.

Braided Funding: Funds from two or more funding sources are coordinated to support the total cost of services to individual children, but revenues are allocated, and expenditures tracked by categorical funding source. In braiding, cost allocation methods are required to assure that there is no duplicate funding of service costs and that each funding source is charged its fair share of program and administrative costs.

Cost Allocation Plan: a written account of the methodology 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 Costs: costs that are not readily identifiable with a particular aspect of organizational operations (sometimes called overhead or administration).

Joint/Dual costs: 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: 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.

Subrecipient: A subrecipient is an agency that receives a sub-award from a grantee or pass-through entity to carry out part of a federal program. Under the Head Start Program Performance Standards, "Agency" would fall within the definition of subrecipient under Part 75.
Example of Cost Allocation for Centrally Located Photocopier

Cost to operate includes:
Lease payments
Repairs and maintenance
Toner
Paper
Supplies, etc.

“Direct Costs”
Consider electricity used, the space it occupies, the Office Manager’s time paying related bills, ordering paper and supplies, arranging deliveries and coordinating servicing, etc.

“Indirect Costs”
Three divisions utilize the copier

- Division A – 12 Staff
- Division B – 6 Staff
- Division C – 22 Staff

How are the costs apportioned or allocated to the three divisions?

- Equal Distribution (i.e. 1/3 each) “Good”
- Number of staff using the photocopier
- User Codes for Photocopier
  - Measures actual usage of the copier “Best”