

Cost Allocation Plans for CILs

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Program Overview

Participants will learn the following:

- The purpose, objectives, and contents of a CIL cost allocation plan.
- How to develop a sound and compliant CIL cost allocation plan.
- Ways to simplify, improve, and properly apply an existing, approved CIL cost allocation plan.
- Procedures for submitting and maintaining a CIL cost allocation plan.

Why All the Audits and All the New Requirements?

- Expectations of all nonprofits have changed dramatically
- New Principles for Good Governance and Ethical Practice (see http://www.nonprofitpanel.org/Report/principles/Principles_Executive_Summary.pdf)
- More IRS audits of smaller nonprofits
- More compliance questionnaires from IRS
- Many states are monitoring compliance requirements more aggressively, and some are imposing new regulations for charities and their boards

Why All the Audits and All the New Requirements? cont'd.

- When there is a failure at a nonprofit, there is usually a reaction that there needs to be more regulation, investigation, and oversight.
- RSA is responding to increased expectations for oversight resulting from Inspector General's Review.

Bottom line—funder expectations are not going away

- All forms of theft and fraud are more prevalent, so you also need to protect your agency from internal and external threats.
- You also need to preserve the confidentiality of consumer, employee, and donor information.

What is a Cost Allocation Plan?

- A cost allocation plan is a written methodology with procedures for fairly distributing shared/indirect costs across different programs.
- A cost allocation plan is a way to comply with the requirements of OMB Circular A-122, "Cost Principles for Non-Profit Organizations," which establishes the principles for determining costs of grants, contracts and other agreements with the Federal Government.
- Direct costs are those that can be identified specifically with a particular cost objective. Indirect costs are those that have been incurred for common or joint objectives, and cannot be readily identified with a particular final cost objective.

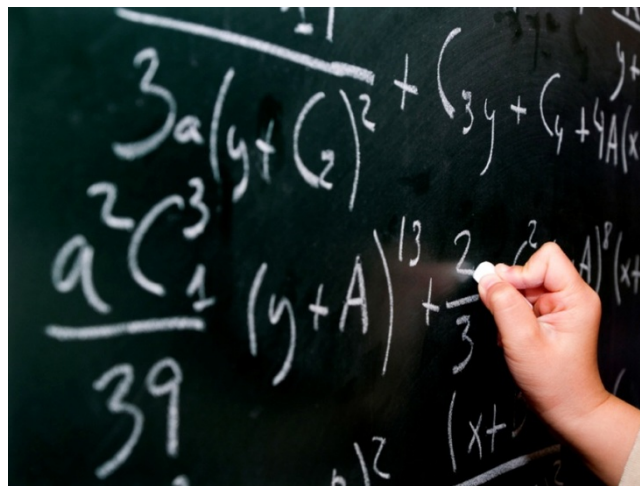
What is a Cost Allocation Plan? cont'd.

- Some of the shared/indirect costs are building and operations costs like rent, utilities, and shared supplies.
- Some of the shared costs are administrative costs such as time invested in all programs by the receptionist, the accountant or the Executive Director.
- While this is NOT a revenue allocation plan, some States are requiring that you separate out your costs by funding source or grant rather than the more general "cost objective."

Cost Allocation Plan Example

We are going to work through a sample cost allocation plan based on the typical programs you may have.

- See Dept. of Education's Model Cost Allocation Plan at http://wiki.ilru.net/images/a/af/Model_CAP_2013.pdf



Contents: Cost Allocation Plan Application for our hypothetical CIL—PENN CIL

- Cost Allocation Procedures—Attachment A
- Organization Chart—Attachment B
- Schedule of Federal Awards—Attachment C
- Schedule of Direct and Indirect Costs—Attachment D
- Schedule of Payroll and Related Costs—Attachment E
- Certification of Cost Allocation Plan—Attachment F
- Reconciliation to form 990, Financial Statements, or approved budget—Attachment G
- Timesheet Example—Attachment H
- Contact information—name, address, phone, email

Attachment A—Cost Allocation Policy/ Procedures (example)



- **Open with a Purpose/General Statement:**

The purpose of this cost allocation Policy is to summarize the methods and procedures that this organization will use to charge direct costs and to allocate indirect costs to various programs, activities, grants, contracts and agreements.

Purpose/General Statements, cont'd.

OMB Circular A-122, "Cost Principles for Non-Profit Organizations," establishes the principles for determining costs of grants, contracts and other agreements with the Federal Government. PENN CIL's Cost Allocation Policy is based on the Direct Allocation Method described in OMB Circular A-122. The Direct Allocation Method treats all costs as direct costs except general management and administrative costs.

Purpose/General Statements, cont'd. 2

Direct costs are those that can be identified specifically with a particular final cost objective. Indirect costs are those that have been incurred for common or joint objectives, and cannot be readily identified with a particular final cost objective.

Only costs that are allowable, in accordance with the OMB A-122 cost principles, will be assigned or allocated to benefiting programs by PENN CIL, Inc.

We have eliminated items that would cause distortion such as certain contracts that pass along benefits directly to consumers but do not impact indirect costs.

Questions and Answers

General Approach (example)

PENN CIL follows US generally accepted accounting principles and uses the accrual basis of accounting.

The general approach of PENN CIL in allocating costs to particular grants and contracts is as follows:

- A. All allowable direct costs are charged directly to programs, grants, activities, etc.
- B. Allowable direct costs that can be identified to more than one program are pro-rated as direct costs using a base most appropriate to the particular cost being prorated.

General Approach, cont'd.

C. All other allowable general and administrative costs (costs that benefit all programs and cannot be identified to a specific program) are pooled and allocated to programs, grants, etc. based on the ratio of direct costs for each program or activity to total direct costs (or based on the ratio of direct salaries for each program or activity to total direct salaries.)

Allocation of Costs (example)

The following information summarizes the procedures that will be used by PENN CIL, Inc. beginning October 1, 2014.

- A. Payroll and Related Costs—Documented with timesheets and personnel activity reports (PARs) showing time distribution for all employees and assigned to programs and activities based on time spent on each program, activity or grant. Salaries and wages are charged directly to the program for which services have been performed. Costs that benefit all programs will be allocated based on the ratio of direct costs for each program or activity to direct costs.

Allocation of Costs, cont'd.

- A. Payroll and Related costs cont'd.
 - 1. Fringe benefits (FICA, US and Worker's Compensation) are assigned in the same manner as salaries and wages. Health insurance, dental insurance, life and disability and other fringe benefits are also allocated in the same manner as salaries and wages.
 - 2. Vacation, holiday and sick pay are assigned in the same manner as salaries and wages.

Examples of Salary Costs Included as Indirect Costs and Supported by Detailed Records

- Executive Director's time/salary and fringe costs may be both direct and indirect. Direct costs are shared between all the grants/programs based on actual time records.
- A Program Manager's time/salary and fringe costs are shared between all the grants/programs based on actual time records.
- General and indirect salaries such as the receptionist, the accounting staff, some Executive Director salary and fund developer may be generally indirect and included in the overall indirect costs.

Allocation of Costs, cont'd. 2

- B. Travel Costs—assigned based on purpose of travel. All travel costs (local and out-of-town) are charged directly to the program for which travel was incurred. Costs that benefit all programs will be included with general and administrative, and allocated based on the ratio of direct costs for each program or activity to total direct costs.

Allocation of Costs, cont'd. 3

- C. Equipment—assigned based upon use. Equipment is capitalized and depreciated when the initial acquisition costs exceed \$1,000 [or whatever capitalization amount you use], and the useful life of the equipment exceeds one year. Items below those limits are expensed in the current year. Equipment used solely by one program is charged directly to the program using the equipment. Costs that benefit all programs will be included with general and administrative, and allocated based on the ratio of direct costs for each program or activity to total direct costs.

Allocation of Costs, cont'd. 4

- D. Contracted Services Costs (such as consulting and interpreter services)—assigned to the program benefiting from the service. All professional service costs are charged directly to the program(s) for which the service was incurred. Costs that benefit all programs will be included with general and administrative, and allocated based on the ratio of direct costs for each program or activity to total direct costs.

Examples of Contracted Service Costs

- Janitorial services/building maintenance
- Alarm services
- Accountant
- Interpreter services
- Audit
- Payroll services

Allocation of Costs, cont'd. 5

- E. Rent and Utilities—assigned based on usable square footage. Facilities costs that benefit all programs will be included with general and administrative, and allocated based on the ratio of direct costs for each program or activity to total direct costs.
- F. Office supplies and expenses—Expenses used for a specific program will be charged directly to that program. Costs that benefit all programs will be included with general and administrative, and allocated based on the ratio of direct costs for each program or activity to total direct costs.

Allocation of Costs, cont'd. 6

- G. Supplies and Materials—Expenses used for a specific program will be charged directly to that program. Costs that benefit all programs will be included with general and administrative, and allocated based on the ratio of direct costs for each program or activity to total direct costs.
- H. Dues, Subscriptions, Postage and Printing—Expenses will be charged directly to the program benefiting from them. Costs that benefit all programs will be included with general and administrative, and allocated based on the ratio of direct costs for each program or activity to total direct costs.

Allocation of Costs, cont'd. 7

- I. Training, Conferences, Seminars—Allocated to the program benefiting from these activities. Costs that benefit all programs are allocated as indirect.
- J. Administrative/Board Costs.
- K. Insurance—Expenses used for a specific program will be charged directly to that program. Costs that benefit all programs will be included with general and administrative, and allocated based on the ratio of direct costs for each program or activity to total direct costs.

Allocation of Costs, cont'd. 8

- L. Other—Allowable costs that benefit a single or multiple programs will be assigned directly to those programs. Costs that benefit all programs will be included with general and administrative, and allocated based on the ratio of direct costs for each program or activity to total direct costs.

Examples of Costs That Typically Cannot Identify to a Particular Program

- General bookkeeping and accounting
- General liability insurance
- Independent audit costs and costs of preparing annual filings

Allocation of Costs, cont'd. 9

M. Unallowable Costs—Costs that are unallowable with federal funds in accordance with OMB Circular A-122, include alcoholic beverages, bad debts, certain advertising, contributions, entertainment, fines and penalties, and lobbying.

A little more about allowable and unallowable costs...

- Unallowable costs, including related indirect costs, cannot be paid with federal funds. You may be able to raise other funds to pay for these costs.
- In the case of Title VII funded CILs, Resource Development (fundraising) costs ARE allowable. (These are allowable under Title VII for CILs as a requirement; they are not typically allowable for federal funds.)

Expense Categories Should Match Your Financial Report

The level of detail in your cost allocation plan should be based on and be similar to the level of detail in your statement of functional expenses if you issue formal financial statements, or to your Form 990 if you issue a full form 990 rather than a Form 990 EZ.

How Do We Make a Cost Allocation Plan Simpler?



- Stick with your methodology; review it carefully before you submit it.
- Simplify your accounting and your vouchering by putting more categories into indirect.
- Track your expenses by service area. If you have multiple funders for the same program you may also need to break it down by funding source.
- Be mindful of other funding requirements such as those your State imposes.

Questions and Answers

Attachment C—Schedule of Federal Awards (example)



PENN CIL Schedule of federal awards:

Grantor	Passthru	CFDA#	2014 Total \$	Expenditures	Period of Perf.
Department of Education		84.132A	\$400,000	\$400,000	10/1/13 – 9/30/14
Social Security		96.008	\$90,000	\$390,000	7/1/13 – 6/30/14
Department of Labor	NY State	96.630	\$150,000	\$150,000	7/1/13 – 6/30/14

Attachment D—Schedule of Direct & Indirect Costs (example)

Indirect Costs

Payroll	122,750
Payroll OH	19,183
Outside Services	5,900
Rent	5,100
Utilities	1,270
Maintenance	2,600
Travel and Training	800
Depreciation	4,648
Telephone	7,572
Insurance	6,586
Dues and Subscriptions	3,500
Advertising	3,660
Office Supplies & Exp.	1,974
Other Exp.	3,057
TOTAL	\$188,600

Direct Costs

Payroll	510,750
Payroll OH	79,820
Outside Services	42,587
Rent	102,757
Utilities	11,597
Maintenance	37,580
Travel and Training	46,892
Program Supplies	27,652
TOTAL	\$859,635

PENN CIL Attachment E—Schedule of Payroll & Related Costs (example)

Projected Payroll, Payroll Overhead and Indirect Allocation



Name	Position	Total	VIIB	VIIC	Local Prog	Fundraising	G&A
Richard	Program Director	71,000	17,750	39,050	10,650		3,550
Jane	Executive Director	74,000	7,400	22,200	7,400	11,100	25,900
Sally	Development Director	32,000				27,200	4,800
Brenda	Systems Manager	15,500					15,500
Stephanie	Deaf Services Coordinator	48,000		48,000			
Multiple	Counselor/Advocate (4)	185,000		185,000			
Multiple	Case Manager (3)	135,000		135,000			
Daniel	Accountant	42,000					42,000
Patti	Receptionist	31,000					31,000
	Totals	633,500	25,150	429,250	18,050	38,300	122,750
Payroll Overhead							
FICA		48,463					
SUTA		9,503					
Disability/compensation		15,838					
Health/life		25,200					
	Totals	99,003					
	Payroll OH%	15.63%	3,930	67,083	2,821	5,985	19,183
	Other direct costs	269,065	9,840	227,850	9,775	21,600	
	Total direct costs		38,920	724,183	30,646	65,885	
	Allocation of indirect		8,539	158,883	6,724	14,455	-

Attachment F—Certification of Cost Allocation



PENN CIL

I have reviewed the indirect cost proposal dated _____

This is to certify that:

1. All costs to be allocated on this cost allocation plan, effective on January 1, 2014, are allowable in accordance with the requirements of grants/contracts to which they apply and with OMB Circular A-122 Cost Principles for Nonprofit Organizations.
2. The costs described in this plan are not unallowable under the applicable federal cost principles.
3. Fundraising costs are unallowable under OMB circular A-122; however the center is required under Title VII to conduct resource development activities to obtain funding from other sources.
4. The requirements and standards on lobbying costs for nonprofit organizations, found in OMB Circular A-122, have been complied with for the periods covered by the plan.
5. All costs described in this plan are properly allocable to the Department of Education and other federal agency grants/contracts on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable federal cost principles.

I declare to the best of my knowledge that the foregoing is true and correct.

Organization: PENN CIL

Signature _____

Name _____

Title _____

Date _____

Attachment G—Reconciliation to Financial Statements (example)



Total Direct Costs	859,635
Total Indirect Costs	188,600
	<hr/>
Total Costs	1,048,235
Total expenses on the audited financial Statements:	1,087,235

Explanation: Depreciation relating to the equipment purchased with federal monies is excluded from the cost allocation plan (-\$2,000)

The organization is adding an assistant Executive Director for the current year (+\$41,000)

Attachment H—Sample Timesheet and PAR

- Attach a sample timesheet for review.
- If you use a timesheet as a personnel activity report only one document would be in this section. (PARs will be covered at the end of presentation.)
- If you use a separate PAR, both a sample time sheet and a sample PAR should be included here.
- We will review a sample PAR. RSA's example is included both on our wiki page and as a handout.

Some of the Most Common Audit Findings...

- Failure to keep cost allocation plan up to date; annual review is sent to RSA mary.gougisha@ed.gov.
- Failure to implement cost allocation plan.
- Failure to base time allocation on actual, after the fact records of how time was used.
- Lack of written policies and procedures, especially in procurement and disposal of equipment.

Tip: Sample policies and cost allocation plan guidance are available on the ILRU wiki. See slide 47.

Annual Review Must Be Submitted



(Name & Address of Grantee)

This is to certify that no changes have been made to the Cost Allocation Plan dated_____

The costs described in the plan referenced above are allocated using the same methodology approved by the letter from the Indirect Cost Group dated_____

I declare to the best of my knowledge the foregoing is true and correct.

Organization: _____

Signature: _____

Name: _____

Title: _____

Date: _____

Questions and Answers

Why is This Important? RSA Audit Deficiencies Found in Several Audits

Missing Personnel Activity Reports

- Federal cost rules require that these reports reflect after-the-fact determination of actual activity—not budget.
- They must account for all activity, and be signed by an employee or a supervisor stating that distribution of activity is a reasonable estimate.
- They must be prepared at least monthly and tie into payroll reports.
- These provide the salary allocation information

Deficiencies, cont'd.

- Timesheets Missing or Inadequate
 - Inadequate timesheets and other payroll documentation such as personnel files and pay rates.
 - Lack of time sheets for exempt staff (Executive Directors especially)
- Cost Allocation Procedures Not Understood or Not Followed
 - There are some pretty clear rules about how costs must be allocated. The rules aren't new but the enforcement of them has changed, and not just for your organizations.

OMB A-122 Requires Personnel Activity Reports (PARs)



- **Personnel Activity Reports** Documentation is required to confirm, after-the-fact, work actually done—not budget.
- Reports must account for all activity, and be signed (physically or electronically) by the employee or their supervisor confirming the distribution of activity is a reasonable estimate.
- They must be prepared at least monthly and tie into payroll reports.

PARs, cont'd.

Personnel Activity Reports (for personal services)

- Because payroll is by far your largest cost and because payroll taxes and benefits are normally allocated in the same way as payroll, you need to get this one right!
- Even employees who are hired to work in a single program area, need periodic certifications that they continue to work solely in that area.

PARs cont'd. 2

- Tracking and documentation of time worked can be accomplished with Excel spreadsheets, paper forms, or some electronic payroll systems.
- A sample spreadsheet is on the ILRU wiki and provided as a handout for this webinar.

Questions and Answers

CIL Financial Management Resources

- IL-NET Financial Management for CILs wiki page
http://wiki.ilru.net/index.php?title=Financial_Management_Workshop_for_CILs

This URL will change as ILRU's website expands. If you do not find the material at this link, you can locate documents on ILRU.org by either using the link "CIL Financial Management" on the Browse by Topic navigation bar or by searching for "financial management."

For More Information

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Wrap Up and Evaluation

Please *click the link below* to complete your evaluation of this program:

<https://vovici.com/wsb.dll/s/12291g54902>

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