

Indirect Cost Allocation Plans

GFOA Annual Conference
June 8, 2010

Session Agenda

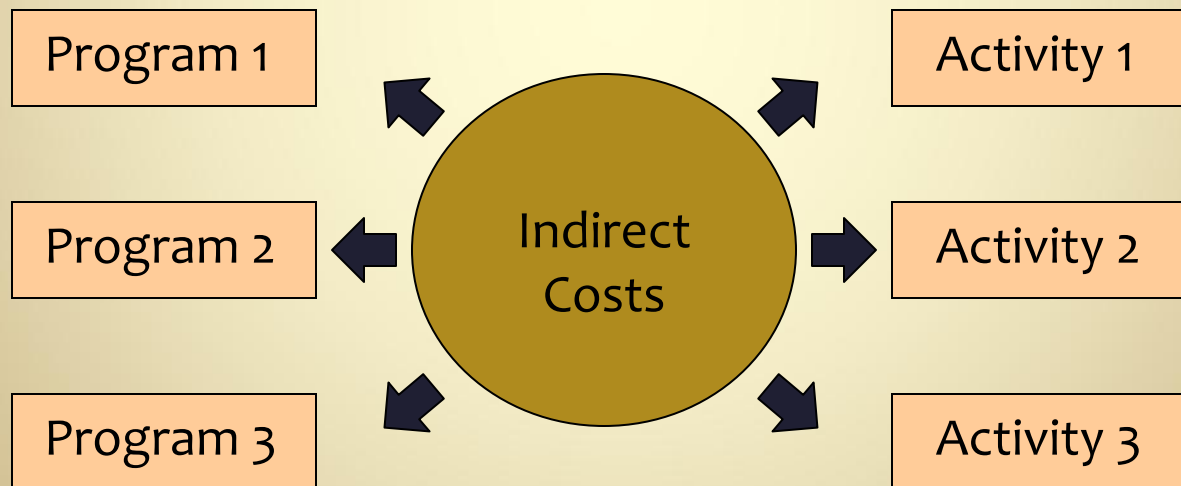
- What is a cost allocation plan?
- Basics of cost allocation plans
- A-87 and impacts of ARRA
- Resources
- Case study

Direct vs. Indirect Costs

- Direct costs specifically identified with a particular cost objective
- Indirect costs incurred for common or joint purposes, benefiting more than one cost objective, not readily assignable to a specific cost objective

What is a Cost Allocation Plan?

- An allocation of indirect costs to programs, activities, and /or cost objectives



What is an Indirect Cost Rate?

- Ratio of indirect costs to a direct cost base

Indirect costs - \$1,000

Direct costs - \$20,000

$$\$1,000 / \$20,000 = 5\%$$

Why have a Cost Allocation Plan?

- Promote fair and equitable sharing of indirect costs
- Recognize “full” cost of services
 - Performance measurement and benchmarking
 - Setting of user fees/tax subsidy levels
 - Activity-based management
- Better manage resources
- Allocate certain General Fund costs to other funds
- Provide clear/concise method to develop budgets

General Guidelines

- Non-grant activities
 - Any costs considered reasonable, justifiable, supportable
- Grants
 - Depends upon agreement
 - Must comply with OMB Circular A-87
- Common approaches
 - Prepare two different cost allocation plans
 - May choose to use grant monies for direct costs only

Allocation Bases

- Cause-and-effect relationship
- Benefits received
- Fairness
- Ability to bear

Allocation Types

- Single Step (Direct Allocation)
- Step-Down (Two-Stage Allocation)
- Reciprocal Allocation

OMB Circular A-87

- Submission requirements
 - If designated a major local government, must submit plan to cognizant agent annually
 - Otherwise, submit to cognizant agency if specifically requested
- Negotiated Indirect Cost Rate Agreement (NICRA)

ARRA

- OMB Memo 09-18 (5/11/09)
 - Allows estimated Central Services Costs
 - Limited to 0.5% of total ARRA funds
 - Supplemental SWCAP submitted
 - Recoup administrative costs more quickly than under traditional process
- OMB Memo 10-03 (10/13/09)
 - Allows equipment to be depreciated over the life of the program
 - Allows multiple-year costs in current ARRA Supplemental SWCAP

Resources

- *GFOA's Cost Analysis and Activity-Based Costing for Government*
- *GFOA's Best Practice – Measuring the Cost of Government Services*
- *OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments*
- *U.S. Department of Health & Human Services A-87 Implementation Guide*

Resources

- OMB Memo 09-18, *Payments to State Grantees for Administrative Costs of Recovery Act Activities*
- OMB Memo 10-03, *Payment to State Grantees for the Administrative Costs for Recovery Act Funding – Alternative Allocation Methodologies*
- U.S. Department of Health & Human Services, *ARRA Frequently Asked Questions for State Governments*

Case Study: City of Minneapolis

- Business need
- Process
- Model
- Communication
- Sustainability

Case Study: Business Need

- Recover General Fund overhead costs from grants
- Goal to use existing General Fund overhead cost allocation plan
 - Existing model calculated resources consumed by grants
 - No mechanism for recovery

Case Study: Process

- Team of Finance staff met for 1 ½ years
- OMB Circular A-87 requirements
 - Parts of existing model unallowable
 - Creation of central allocation plan and indirect cost rates
 - Need for extensive documentation
- Unallowable costs
 - Removal of both resources and activities
 - Overall model allocated \$5 million less and removed ½ of activities

Case Study: Process

- Doubts and uncertainties:
 - Time needed to create documentation
 - Grants calculated to consume only \$1.5 million
 - Uncertain full \$1.5 million would be collected
 - Lack of buy-in from team members
 - Cognizant agency does not review plan

Case Study: Model

- Base: budget or actual?
- Modeled after City of Berkeley's plan
- Documentation in 4 parts:
 - Summary
 - Allocation basis with reconciliation
 - Detailed allocation
 - Resources

Case Study: Communication

- Controller presented to departments
- Departments to submit plan with grant application
- Fairness debate

Case Study: Sustainability

- Lack of internal hierarchy to centrally manage grants
- Resources necessary for annual updates
- Research into alternative bases: direct labor vs. capital costs

Questions

