



Core Principles of Cost Allocation

Webinar 2

Who Is Our Primary Audience?

- Our primary audience is grantees and sub-recipients of five Multifamily Housing grant programs:
- Assisted Living Conversion Program
- Congregate Housing Services Program
- Section 811 Project Rental Assistance (PRA) Program
- Service Coordinators in Multifamily Housing
- Supportive Services Demonstration for Elderly Households in HUD-Assisted Multifamily Housing

Presentation Objectives – 5 Goals

- Communicate information clearly
- Define common technical terms to facilitate discussion
- Increase understanding of federal Cost Principles and their implementation in day-to-day program activities
- Provide descriptions and examples of direct and indirect costs and approved cost allocation methodologies
- Stimulate questions and critical thinking

Direct & Indirect Costs

Direct Costs

- Directly performing activities related to HUD objectives

Indirect Costs

- Serving “common” or joint objectives of the organization as a whole

What Are Direct Costs?

- Association with the Federal award is the determining factor in distinguishing direct from indirect costs.
- Examples of direct costs include:
 - The salary and benefits paid to a case manager
 - Staff time spent in qualifying a client for services
 - Mileage reimbursement for making home visits

What About Indirect Costs?

- Indirect Costs = Costs of goods or services that are 'common' or shared across multiple programs/cost centers. 2 CFR 200.414 defines 2 types of indirect costs:
 - Facilities
 - Administration
- Please note that not all 'administrative' costs are indirect and not all 'indirect' costs are administrative.

Examples of Indirect Costs

- Typical examples of indirect costs include:
- Rent, utilities, insurance, maintenance and other expenditures related to shared space
- Administrative and executive team functions that support multiple program areas
- Purchases, transportation and staff expenses that benefit multiple program areas

What is Cost Allocation?

- Cost Allocation:
- Charging an expenditure (in part or as a whole) to a particular contract or project
- All costs must be fully accounted for, either in one activity area or across multiple areas
- Each cost incurred for the same purpose must be treated consistently in similar circumstances – as either a direct or an indirect cost
- Federal cost allocation guidelines apply to all expenditures across the entire agency budget

What's in a Cost Allocation Plan?

- Guidelines for allocating Shared Costs, based on the relative benefit to respective program activities
- Articulation of the various methods used, based on cost types. These methodologies should be:
 - Reasonable for the cost type and program environment
 - Consistent with agency policies and Generally Accepted Accounting Principles (GAAP)
 - Reassessed annually as part of the agency's budget development process

Defining Admin Costs for HUD Purposes

- Administrative costs, in general, include overall program management, budgeting, coordination, monitoring, reporting and evaluation.
- This includes the salaries and benefits for personnel, as well third-party costs, such as legal, accounting and audit services.
- Also included are goods and services required for program administration, including equipment, insurance, utilities, office supplies and the rental & maintenance of office space.

Methods for Allocating Indirect Costs

- Most government entities and ‘major’ nonprofit organizations have a negotiated Federally Approved Indirect Cost Rate.
- Appendix IV to Part 200 lays out two other methods that grantees and their sub-recipients may employ:
 - Simplified Allocation Method
 - Direct Allocation Method

Simplified Allocation Method

- Simplified Allocation Method: Used when all of an organization's major functions benefit to approximately the same degree – or when an organization has only one major function with a number of individual projects or activities – and may be used when the level of Federal funding is relatively small.

Simplified Allocation Method

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- The distribution base may be:
- Total direct costs (excluding capital expenditures and other distorting items, such as sub-awards for \$25,000 or more),
- Direct salaries and wages, or
- Another base which results in an equitable distribution
- (Note: organizations with greater than \$10 million per year in federal spending have additional requirements.)

Direct Allocation Method

- Direct Allocation Method: Direct charging of admin and clerical staff salaries...if all four of the following are met:
- Administrative/clerical services are integral to a project or activity;
- The individuals involved can be specifically identified with that project or activity;
- Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and
- The costs are not also being recovered as indirect costs.

Direct Allocation Method

continued

- Using this method, all costs are limited to 3 categories:
- Program activities, including those paid for by federal grants
- Management functions and general expenses (M&G)
- Fundraising, which, under the OMB regulations, is never eligible for HUD reimbursement
- The prorated indirect costs are treated as if they were direct costs and are assigned to one of the categories above using an allocation strategy appropriate to each particular cost type.

Q & A

