



IOWA DEPARTMENT OF JUSTICE
OFFICE OF THE ATTORNEY GENERAL

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Chapter 18 Cost Allocation

The requirements for the development and submission of indirect cost proposals and cost allocation plans are set out in [Appendices III – VII of 2 C.F.R. § 200](#). Subrecipients should follow the guidelines applicable to its type of organization.

A cost allocation plan is a means of distributing to various projects, costs which benefit more than one project and are not directly assigned.

Indirect costs are costs of an organization that are not readily assignable to a particular project but are necessary to the operation of the organization and the performance of the project. Examples of costs usually treated as indirect include those incurred for facility operation and maintenance, depreciation, and administrative salaries.

Subrecipients preparing a cost allocation plan or indirect cost rate proposal (ICRP) should review the following federal publications that are pertinent to their type of organization:

1. [2 C.F.R. § 200, Appendix III for Institutions of Higher Education](#)
2. [2 C.F.R. § 200, Appendix V for State/Local Government Central Service Cost Allocation Plans](#)
3. [2 CFR Part 200 Appendix IV-Indirect Costs Identification and Assignment and Rate Determination for Nonprofit Organizations](#)
4. [2 C.F.R. § 200, Appendix VII for State/Local/Tribal Indirect Cost Proposals](#)

Approved Cost Allocation Plans

Subrecipients must submit a copy of their approved cost allocation plan before requesting reimbursement for allocated costs to CVAD. If a cost allocation plan for recovery of allocated costs is not submitted to CVAD within three months of the start of the award period, there is a possibility that allocated costs will be withheld from reimbursements until a cost allocation plan is received. Subrecipients who are also direct recipients of federal awards may already have a federally approved indirect cost rate. If you have negotiated an indirect cost rate with the federal government, then that rate applies.

Cost Allocation Plans --Central Support Services

State agencies and local units of government may not charge the cost of central support services supplied by the state or local units of government to a grant, except pursuant to a cost allocation plan approved by the cognizant federal agency. The rate which is to be applied may be on a fixed, predetermined, or fixed-with-carry-forward provision.

Cognizant Federal Agency

OMB's guidance for determining the cognizant agency is in [2 CFR Part 200, Appendix V, Section F.1](#). For local government-wide central service cost allocation plans, the cognizant agency is the federal agency with the largest dollar value of total federal awards with the local government (city or county). For state and local government departmental or agency indirect cost rates, the cognizant agency is the federal agency with the largest dollar value of direct federal awards with the state or local government department or agency.

Cognizant State Agency

The cognizant state agency shall be responsible for approving subrecipients' cost allocation plans. Other state funding agencies, which have awarded the subrecipient with grant funds, must abide by the methods of cost allocation approved by the cognizant state agency.

The cognizant state agency is generally defined to be the state agency whose funds compose the greatest percentage of state grant funds received by a grantee agency. Determination of the cognizant state agency shall be made by CVAD. Once assigned, the term of responsibility shall be indefinite, although responsibility may be reassigned upon written request and justification to CVAD by either the cognizant state agency or the grantee agency.

Definition of Costs

A cost allocation plan is a means of distributing expenses which benefit more than one program to various projects. Cost allocation is basically a mathematical exercise to distribute costs proportionally based on the benefit received.

An agency will incur basically three kinds of costs: direct, administrative, and allocable direct.

1. Direct costs are those costs that benefit a specific project and include expenses such as:
 - Salaries/benefits of persons who provide direct services to only one project
 - Travel costs, which benefit a program,
 - Equipment and maintenance and insurance for the equipment used only for one project
 - Project supplies for a specific project
 - Professional services which benefits a single project
 - Printing which benefits a single project
2. Administrative costs are costs that benefit the operations of the entire agency, but cannot be identified to specific projects and include:
 - Executive director's salary and benefits, or administrative portion thereof if the executive director spends time on grant-related activities
 - Fiscal officer's salary and benefits, or administrative portion thereof if the fiscal officer spends time on grant-related activities
 - Purchasing staff's salary and benefits
 - Secretarial support of administrative employees
 - General office supplies
 - Travel of administrative employees
 - Occupancy costs (e.g., rent and utilities) of administrative employees,
 - Postage and telephone costs of administrative employees
 - Liability insurance
3. Allocable direct costs are costs which benefit more than one project and are not administrative costs. These expenses include:
 - Salaries and benefits of employees whose work benefits more than one project
 - Travel costs of employees whose work benefits more than one project
 - Occupancy costs of projects
 - Communication costs of projects
 - Supplies used by more than one project
 - Contract for professional services that benefit more than one project
 - Rental and maintenance for equipment used by more than one program
 - Audit costs

Allocation Methods

The periodic allocation of actual expenditures, rather than use of a fixed or provisional indirect cost rate, is the most appropriate and equitable method of cost allocation. Below are allowable methods to allocate administrative costs and allocable direct costs. Exceptions will be allowed, providing prior approval of the alternative method is granted from the cognizant state agency.

Administrative costs should be accumulated in a separate cost pool. After allocating the administrative cost pool its share of the allocable direct costs, the total should be periodically allocated to the projects based on the percentage of total direct program salaries. Another method is using total direct costs to distribute administrative costs. The actual administrative costs are allocated to each project based on its percentage of total direct costs for the period after allocation of direct costs.

Several different methods may be acceptable for the allocation of direct costs. The following are specific examples:

- Salaries and benefits – allocate using time and activity logs, number of clients served, or a different approved basis
- Travel – allocate on the same basis as salaries and benefits
- Occupancy costs – allocate based on the square footage occupied by the project as a percentage of total square feet allocated to all projects
- Communication costs – allocate based on the number of personnel, number of lines, or other equitable method
- Supplies – allocate based on personnel, clients served, or other equitable method
- Contracts for services – allocate based on clients served, or other equitable method
- Equipment rental and maintenance – allocated based on usage logs or other equitable method

Instructions for Cost Allocation Plans

Subrecipients must prepare a narrative describing in detail the methods used to allocate costs to the various projects. The plan should include an organizational chart and documents and schedules to support the allocation methods.

The following should be used in the preparation of the plan:

- Effective period of the proposal
- Certificate of indirect costs
- A listing of grants and contracts by federal agency, amounts, period of performance, and the indirect cost limitations (if any) applicable to each, such as ceiling rates or amount
- Organizational chart showing the structure of the agency during the period for which the proposal applies, along with functional statement noting the duties and/or responsibilities of all units that comprise the agency
- A copy of the financial statements prepared by either a certified public accountant or state government auditor, or a copy of the official budget, if the budget reports the actual expenditures for the year on which the proposal is based, and the audit report, if applicable
- Chart of accounts

Records

Subrecipients must have their approved formal cost allocation plan on file. The cost allocation plan must clearly indicate that line items charged to a direct cost category, i.e., supplies, are not included in the indirect cost category. All costs included in the plan must be supported by accounting records, i.e., invoices, purchase orders, canceled checks, or other records supporting payments, which show the actual expense.

