

## Cost Allocation Information

**Purpose:** This document is intended for informational purposes for organizations when determining appropriate methodologies for allocating shared costs that are budgeted and charged to OVW awards. Organizations should work directly with their finance staff, accountant, or auditor to ensure their documented Cost Allocation Plan complies with the requirements in 2 C.F.R. Part 200.

### Determining the Methodology:

OVW allows award recipients to budget and charge an equitable portion of the program share of allowable costs. In order to do so, the organization must establish a method for equitably distributing the cost of each item.

The method for distributing shared costs will vary depending on each type of cost, and various factors should be considered when determining the most appropriate way to approach each cost. Some factors for consideration include:

- What would likely cause an increase or decrease in the cost?
  - o e.g., usage, human capital, total revenue, etc.
- Who receives the benefit of the item/cost?
  - o e.g., all staff in an organization (may have multiple offices), all staff who occupy a specific office space, only a portion of the staff that use the item(s), one staff member who receives the item, etc.

### FTE Allocation Method

An FTE Allocation Method may be used for sharing costs that are usage-driven, like general office supplies, computing devices, occupancy, etc. First, determine the **individual FTE computation**: If a staff member works full time (1FTE) and they work 50% of their time on the award, then they work 0.5FTE for the award (see example below for Brenda Healey for this figure).

#### BUDGET EXAMPLE:

##### Personnel:

Brenda Healey, Attorney	50% x \$50,000 x 1 year	\$25,000
Susan Smith, Executive Director	25% x \$35,000 x 1 year	\$8,750
Kyle Larry, Program Director	75% x \$37,500 x 1 year	\$28,125
Sam Bradley, Advocate	100% x \$30,000 x 1 year	\$30,000

This example assumes that all staff listed account for the total organizational staff. There are a **total of 4FTE organizational staff**, and the **total FTE's budgeted to the award is 2.5FTE** (0.5FTE + 0.25FTE + 0.75FTE + 1FTE = 2.5FTE)

Next, determine the **organizational FTE computation**:

1. Add up the total FTE for the organization. So if you have 4 full-time staff in your organization, the total FTE for your organization is **4FTE** .
2. Then, to determine the percentage of FTE for this budget's shared costs, divide the total award FTEs (which we determined above is 2.5FTE) into the total organization FTE (which we determined above is 4FTE).
3. The calculation to determine the organization FTE is:  **$2.5 / 4 = 62.5\%$**

The organizational FTE computation can be used to calculate the portion of shared costs in situations where all staff members receive the benefit of the item. So for example, if all staff in an organization's office receives general supplies, then the organizational FTE computation can be computed against the cost to determine this award's budgeted portion.

### **Other Allocation Methods**

As was previously described, the method for distributing the shared cost will vary, depending on the factor that drives the cost up or down. The FTE Allocation Method described above was driven by usage, but for costs that do not increase or decrease based on usage, like an annual audit, the FTE Allocation Method may not be the most appropriate way to determine the program's share of the cost. If the auditor's cost is based on the Total Revenue of the organization, then you would divide the total revenue of this program by the total organizational revenue, to calculate the allocation percentage for that cost. To recap, the main consideration when determining the allocation method should be the factor that drives the specific cost up or down.

### **Various Examples of Costs**

#### **Example: General Office Supplies**

If a person uses a pen during the day, you wouldn't track how much time that person uses the pen for each activity. Rather, it can be reasonably assumed that the amount of time the person uses the pen is equal to the amount of time that person works on each project. In this case, an FTE allocation method would follow that same principle and offer an acceptable method to allocate the cost. If all staff in an office receives the general supplies, then the base in the computation would be the total number of staff in the office.

*Budget Example: An organization budgets an average of \$150/mo for general office supplies which is used by all staff in the office*

*→ Office Supplies:  $\$150/\text{month} \times 62.5\% \times 12 \text{ months} = \$1,125$*

#### **Example: Rent**

This requires an additional step. To charge rent, the following must be determined. First, determine the square footage allotted for each staff, and subsequently their total square footage cost (by multiplying

cost per square foot by their total square footage). Then for that staff, determine their portion of time on the award. If they spend 50% of their time on the award, then they can charge 50% of their cost of rent. So you would do the same for all staff in the office.

*Budget Example: An organization budgets a proportionate amount of office space based on staff occupancy. Cost for rent is \$10/sqft per year.*

Brenda Healey (50%)	$100 \text{ sqft} \times \$10/\text{sqft} \times 1 \text{ year} \times 50\% = \$500$
Susan Smith (25%)	$125 \text{ sqft} \times \$10/\text{sqft} \times 1 \text{ year} \times 25\% = \$312.50$
Kyle Larry (75%)	$110 \text{ sqft} \times \$10/\text{sqft} \times 1 \text{ year} \times 75\% = \$825$
Sam Bradley (100%)	$95 \text{ sqft} \times \$10/\text{sqft} \times 1 \text{ year} \times 100\% = \$950$

**Total Annual Rent for Direct Staff Space = \$2,587.50**

### **Example: Insurance for Attorney**

If an organization budgets an attorney for an award and they are required to purchase insurance for the attorney to practice law, then an appropriate proportion of cost of their insurance can be charged. In this case, the total cost for that attorney's insurance multiplied by their percentage of time dedicated to the award can be charged.

*Budget Example: Brenda Healey is an attorney for this organization and she works 50% of her time on the award providing legal services*

→ *Insurance for Attorney:  $\$750/\text{yr} \times 50\% \times 1 \text{ year} = \$375$*

### **Example: Direct Program Supplies**

If an organization makes a purchase for training supplies to support a training event held specifically for the OVW award, then the cost could be charged directly and not allocated. Another example could be brochures that are purchased specifically for the OVW award and not a general office brochure. This could also be charged directly and not allocated.

*Budget Example: The organization budgets for the printout of manuals for a training event they will host for judges. This amount is not allocated since it is a direct cost (not a shared cost).*

→ *Direct Program Supplies:  $\$5/\text{manual} \times 20 \text{ trainings} \times 15 \text{ judges/training} = \$1,500$*

## **Documenting a Cost Allocation Plan**

The most important part of this process is to ensure that the methodologies are used consistently across your organization, **documented**, and implemented into the internal procedures. It is recommended that a Cost Allocation Plan is developed that details: the organization's general approach to costs, how costs are allocated, examples of the various methodologies used and under what circumstances, and any other information pertinent to the process used by the organization to allocate costs.

## **Budgeting versus Charging for Allocated Shared Costs**

It is important to understand that the organizational or individual FTE allocation percentage determined during the budget process is for budgetary purposes only. Since this percentage is based on staff time, which frequently varies, the percentage should be recalculated each time the costs are charged.

**Example for General Office Supplies:** If the organization reconciles their supply costs monthly, and the percentage for their organizational FTE allocation was 62.5% in the budget, but increased to 68% that month due to increased staff time, then they would charge the 68% allocation against their supply costs incurred for that month, and NOT the budgeted amount.