

Cost Allocation Narrative

The requirement to allocate the costs of shared resources can be met by using logical and rational methods to ensure that each program is paying only its fair share of the cost of an item used in common, and that no program is subsidizing another. Generally, the methods used to allocate a shared cost should be the simplest, most straightforward way of allocating this type of cost fairly. Complex, highly detailed methods should be avoided when a simple one will achieve the objective.

Methods, rules or formulas that use percentages or fractions of cost items are acceptable. For example, a method of allocating staff costs could be as simple as a statement of the percentage of time attributable to a funding source. If an individual spends half of the day on activities support by funding source C, another 25 percent on activities supported by funding source A and 25 percent on activities supported by funding source B, then the cost allocation rule is 50 percent to source C, 25 percent to funding source A, and 25 percent to funding source B. These percentages may then be applied to all relevant personnel costs for that individual (or group of individuals) for a budget period. Minute-by-minute, hour-by-hour allocation is not required, but there must be a way to reasonably establish the basis for the allocation rule, such as agency or classroom schedules or prior year reports.

The cost allocation plan for an agency would be the combined individual allocation schemes for all the shared costs of the program. To keep the plan as simple as possible, unnecessary proliferation of individual schemes should be avoided. General schemes that can be applied to large portions of the agency's budget and still fairly allocate shared costs are preferable to complex detailed schemes.

Each of the major "cost centers" or cost items in the agency's budget should be looked at for a reasonable, fair way to allocate the costs of that shared resource. The method for allocating the cost of facilities (office space, for example) may be quite different than the method for staff, but still expressed in simple percentage terms. For example, an agency could analyze the space (expressed in square feet) used in the administration of various programs.

The nature and use of each cost item determines the most suitable measure for that item and the best scheme for the allocation of costs. Taking an approach such as "Funding Source A has the largest budget, so Source A should pay the largest share of costs" is not acceptable. The funding sources' share of an agency budget is determined by the allowable and reasonable cost of providing services as reflected in the cost allocation plan, not by the quantity of dollars going into the agency's total budget.

To carry out the requirement of appropriation law, a cost allocation plan should:

1. List the sources of revenue for the program, supported by historical or other data to substantiate the amounts.
2. Describe how many of the total number of enrollees are covered by specific funds in the cost allocation plan if the agency is serving children with funds from more than one source.
3. Describe the methods used to determine the allocation of the costs of shared resources to the various funding sources.
4. Specify the basis for allocating costs within specific cost categories (personnel, space, supplies) and provide a description for how expenditures within the major cost categories will be allocated and recorded in the grantee agency's accounting system.