



**COUNTY OF LOS ANGELES  
COMMUNITY AND SENIOR SERVICES**

**DIRECTIVE**

**Number: CCD- 15 - 03**

**SUBJECT: Cost Allocation and Indirect Cost  
Requirements for CSS Subawards**

**Date: September 24, 2015**

**Effective Date: Immediately**

**TO: ALL CSS SUBRECIPIENTS**

**PURPOSE:**

The purpose of this directive is to provide subrecipients with the requirements for submission and approval of cost allocation and indirect cost plans applicable to County of Los Angeles Community and Senior Services (CSS) subawards.

This directive will provide guidance on cost allocation principles, methods of allocating shared costs, and the development of cost allocation and indirect cost plans.

**APPLICATION:**

This directive applies to subrecipients and contractors funded by CSS through, but not limited to the following funding sources:

- CalWorks (from any fund source, i.e., Single Allocation)
- Older Americans Act
- Workforce Innovation and Opportunity Act

**REFERENCES:**

- 2 CFR Chapter I and Chapter II, Parts 200, 215, 220, 225, and 230 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards; Final Rule

**BACKGROUND:**

On December 26, 2013, the Office of Management and Budget revised the Uniform Administrative Requirements for Federal grants, combining those requirements with those of the audit requirements and cost principles. These regulations are codified at 2 CFR Chapter I and Chapter II, Parts 200, 215, 220, 225, and 230, became effective December 26, 2014, and are referred to as the Uniform Guidance. These rules contain the guidance and criteria for the establishment of cost allocation plans and indirect cost rates.

## DEFINITIONS:

Allocation means the process of assigning a cost, or a group of costs, to one or more cost objective(s), in reasonable proportion to the benefit provided or other equitable relationship. The process may entail assigning a cost(s) directly to a final cost objective or through one or more intermediate cost objectives. (2 CFR 200.4)

All costs that are allocated to cost objectives must be actual and not estimated and must be documented.

Cognizant agency for indirect costs means the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under this Part on behalf of all Federal agencies. The cognizant agency for indirect cost is not necessarily the same as the cognizant agency for audit. (2 CFR 200.19)

Contract means a legal instrument by which a non-Federal entity purchases property or services needed to carry out the project or program under a Federal award. The term as used in this Part does not include a legal instrument, even if the non-Federal entity considers it a contract, when the substance of the transaction meets the definition of a Federal award or subaward. (2 CFR 200.22)

Cost objective means a program, function, activity, award, organizational subdivision, contract, or work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capital projects, etc. A cost objective may be a major function of the non-Federal entity, a particular service or project, a Federal award, or an indirect (Facilities & Administrative (F&A)) cost activity. (2 CFR 200.28)

Final cost objective means a cost objective which has allocated to it both direct and indirect costs and, in the non-Federal entity's accumulation system, is one of the final accumulation points, such as a particular award, internal project, or other direct activity of a non-Federal entity. (2 CFR 200.44)

Generally Accepted Accounting Principles (GAAP) has the meaning specified in accounting standards issued by the Government Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB). (2 CFR 200.49)

Indirect (F&A) costs means those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived. (2 CFR 200.56)

Indirect cost rate proposal means the documentation prepared by a non-Federal entity to substantiate its request for the establishment of an indirect cost rate as described in the Uniform Guidance. (2 CFR 200.57)

Intermediate cost objective means a cost objective that is used to accumulate indirect costs or service center costs that are subsequently allocated to one or more indirect cost pools or final cost objectives. (2 CFR 200.60)

Modified Total Direct Costs (MTDC) means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and subawards and subcontracts up to the first \$25,000 of each subaward or subcontract (regardless of the period of performance of the subawards and subcontracts under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, client support costs and the portion of each subaward and subcontract in excess of \$25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs. (2 CFR 200.68)

To clarify, the first \$25,000 of subawards or subcontracts applies to agreements between the CSS subrecipient and lower tiered level providers.

Pass-through entity means a non-Federal entity that provides a subaward to a subrecipient to carry out part of a Federal program. (2 CFR 200.74)

Subaward means an award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of a Federal award received by the pass-through entity. It does not include payments to a contractor or payments to an individual that is a beneficiary of a Federal program. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract. (2 CFR 200.92)

Subrecipient means a non-Federal entity that receives a subaward from a pass-through entity to carry out part of a Federal program; but does not include an individual that is a beneficiary of such program. A subrecipient may also be a recipient of other Federal awards directly from a Federal awarding agency. (2 CFR 200.93)

#### **POLICY:**

All CSS subrecipients must have approved plans for the allocation of shared costs to subawards and cost categories and for charging indirect costs to subawards.

Effective with the subawards made by CSS to subrecipients beginning July 1, 2015, subrecipients must develop written plans for cost allocation and indirect costs. **The plans must be submitted to CSS no later than October 7, 2015 for review. Submission of a plan does not automatically confer approval. CSS reserves the right to require changes to a submitted plan. Once plans are submitted by the subrecipient and approved by CSS, there can be no changes to the methodology except as required by CSS. For contracts with multiple contract years, the**

**subrecipient will have an opportunity to request changes to the methodology and plan prior to April 1<sup>st</sup> of each contract year.**

They must be forwarded to CSS at the following address:

County of Los Angeles Community and Senior Services  
Attention: Compliance Division  
3175 W. 6<sup>th</sup> Street  
Los Angeles, CA 90020 and at  
mtarver@css.lacounty.gov

**All future CSS procurements, cost allocation and indirect cost plans will be required as part of the subrecipient's submission to a CSS Request for Proposal. Failure to submit plans that meet the requirements set forth in this directive will result in a nonresponsive proposal which shall not be considered for funding.**

### **COST PRINCIPLES:**

The Uniform Guidance requires organizations to follow the cost principles described in that document. These cost principles require, in general, that, to be allowable:

1. a cost shall be necessary and reasonable for the proper and efficient administration of the program;
2. be allocable to the program; and,
3. except as provided in the case of governmental subrecipients, not be a general expense required to carry out the overall responsibilities of the governmental subrecipient.

Whether a cost is charged as a direct cost or as an indirect cost shall be determined in accordance with the descriptions of direct and indirect costs contained in those cost principles.

**Allocability:** Allocability is one of the basic cost principles used in determining whether costs are allowable to federally funded subawards. Allocability is a measure of the extent to which a cost benefits the subaward in general and its cost objectives in particular. **To the extent that a cost does not benefit the program, the cost cannot be charged to the subaward.**

**Consistent Treatment:** For a cost to be allocable to a particular cost objective, it must be treated consistently with other costs incurred for the same purpose in like circumstances. A cost may not be assigned to a subaward as a direct cost if any other cost incurred for the same purpose, in like circumstances, has been allocated to an award as an indirect cost. Costs identified specifically with subawards are direct costs of the subawards and are to be assigned accordingly. Costs identified specifically with other final cost objectives of the organization are direct costs of those cost objectives and are not to be assigned to other awards directly or indirectly.

Example: The subrecipient has three case managers who perform identical duties, each serving a clientele from multiple programs. One case manager reports time as the basis for the costs associated with that position while the other two case manager salaries are allocated to programs based on number of clients served.

It would not meet the standard of consistent treatment to use different bases to allocate the same type of cost to programs. The salaries of the three case managers should be treated the same for all programs.

It is possible for a portion of a cost to be attributable to an indirect cost pool and another portion to be directly assignable to a program. In those instances, the subrecipient must take care to treat the costs consistently.

Example: A director has administrative responsibility for a youth program and a Area Agency on Aging (AAA) program and spends four hours a week teaching a class to youth participants on work skills. The remainder of the director's time (36 hours) is spent on general administrative duties of the subrecipient. For consistent treatment, the costs associated with time spent on administrative duties would be charged to all programs through the indirect cost rate while the four hours of teaching time can be charged directly to the youth program regardless of how the administrative costs were charged, since the teaching costs were not incurred for the same purpose as the administrative costs.

## **TYPES OF COSTS:**

The total cost of a subaward program is comprised of the allowable direct costs incident to its performance, plus the allocable portion of allowable indirect costs, less applicable credits.

**Direct Costs:** Direct costs are readily identified with and directly charged to a specific cost objective. Direct costs may be specifically identified with and assigned to a final cost objective, such as a specific program cost category. Direct costs are charged directly to a final cost objective and do not require any further allocation or breakdown by the subrecipient.

For a direct cost to be assignable in its entirety to a particular cost objective, the cost objective must receive the full benefit from the goods, services, activities, or effort that make up that cost. In this instance, measuring benefit entails no more than identifying the full cost of the activity and assigning it to the correct cost objective.

Example: The salary cost of a staff person performing case management duties only for a specific fund source of the subrecipient is directly assignable to the program cost category under that program.

Example: The staff person in the above example performed case management duties for two programs serving clients from each program and documented the hours spent on each program on a time sheet. The salary costs would be a direct cost to both programs, based on the documented time sheet hours.



**Shared Costs:** Shared costs are costs that cannot be readily assigned to a final cost objective, but which are directly charged to an intermediate cost objective or cost pool and subsequently allocated to final cost objectives. These costs are incurred for a common or joint purpose benefiting more than one cost objective. These costs are similar to the general indirect costs in that it is easier to assign or allocate them based on some measure of benefit received than to assign them directly to final cost objectives.

When the direct measurement of benefit cannot be done efficiently and effectively, then it is appropriate to pool the costs for later distribution. An allocation base is the mechanism used to allocate the pooled costs to final cost objectives. Using the above example, instead of staff recording time spent by activity, the organization could use the relative number of clients in each activity or some other equitable basis for measuring benefit to each program. Care should be taken to ensure that the basis chosen does not distort the results and that the basis is appropriate to the cost objectives receiving the costs.

**Any distribution of costs between programs or between direct and indirect costs must be documented. Estimates or verbal attestation is not sufficient. Auditable documentation must support the allocation of these costs.**

**Example:** Three staff members provide case management services to clients in two CSS funded programs without regard to which program the clients are enrolled and it is difficult to identify time spent by client. The case managers' costs are directly assigned to the program cost category but are not readily assignable by type of client. The case managers' costs could be directly charged to a cost pool established to accumulate such costs and later distributed to the appropriate category using an appropriate allocation method, such as the relative number of clients enrolled.

**Indirect Costs:** These costs may originate in the subrecipient's own organization or in other departments that supply goods, services, or facilities to the CSS funded program. Most often, however, general indirect costs are costs that are incurred to support the overall operation of the organization, and for which a direct relationship to a particular CSS funded program cannot be shown without effort disproportionate to the results achieved. Indirect costs are charged back to the program using an indirect cost plan or rate. Indirect costs are required to have a documentable and approved basis of allocation.

## **INTERMEDIATE AND FINAL COST OBJECTIVES:**

Costs that are not readily chargeable to a final cost objective are often aggregated into intermediate cost objectives, usually called cost pools, and are periodically allocated to final cost objectives using an appropriate allocation methodology. Cost pools can be established for any type of cost when it is beneficial or necessary to pool costs. All pooled costs must ultimately be allocated to the final cost objectives in proportion to the relative benefits received by each cost objective.

A cost objective is an activity for which separate cost measurement is performed. A further distinction is made between intermediate and final cost objectives. An intermediate cost objective can be a cost pool, center, or area established for the accumulation of costs, assigned to such dissimilar categories as organizational units, functions, objects, or items of expense. Final cost objectives include specific funding sources, cost categories, grants, program activities, projects, contracts, and/or other activities.

**Cost Pools:** Cost pools can be established for any types of common costs when it is practical or necessary to pool such costs.

**Example:** A subrecipient has staff members who conduct the initial intake for both a CSS program and other programs. An intake manager is responsible for overseeing and managing the client flow process, supervising the intake workers, and reporting to the deputy director. All costs are unassignable, initially pooled, and charged temporarily to an intake related cost pool account. These costs include the salary and fringe benefits of the line staff and intake manager, materials, phones, and other related costs required to carry out the intake function. Then, based on an approved formula that distributes costs based on benefits received by each program (such as the number of eligibility determinations completed for each program or the number of persons enrolled during the period), the costs are charged back to the appropriate programs.

Cost pools reduce some of the burden of tracking expenditures because they are vehicles for temporarily accumulating unassignable direct and indirect costs that later will be allocated to a particular program. As costs accrue, a formula based on the benefits received by each program dictates how these costs will be distributed and reported by program or cost category. This eliminates trying to assign all staff time and every expenditure by program or cost category at the time it is incurred.

**NOTE: The allocation of pooled costs based on fund availability or percentage of funding source administrative dollars (contribution method) is not allowable.**

#### **ALLOCATION OF SHARED COSTS:**

**Allocating Shared Personnel Services Costs:** Amounts charged to CSS funded programs for personnel services, regardless of whether treated as direct, shared or indirect costs, must be based on payrolls documented and approved in accordance with the established practice of the employing entity.

**Standards for Documentation of Personnel Expenses:** Charges to CSS subawards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- Be incorporated into the official records of the subrecipient;

- Reasonably reflect the total activity for which the employee is compensated by subrecipient, not exceeding 100% of compensated activities;
- Encompass all programs (both CSS and non-CSS);
- Comply with the established accounting policies and practices of the subrecipient; and
- Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one program; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.
- Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federally funded subawards, but may be used for interim accounting purposes, provided that:
  - The system for establishing the estimates produces reasonable approximations of the activity actually performed;
  - Significant changes in the corresponding work activity (as defined by the subrecipient's written policies) are identified and entered into the records in a timely manner. Short term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term; and
  - The subrecipient's system of internal controls includes processes to review after-the-fact interim charges made to the subaward based on budget estimates. All necessary adjustment must be made such that the final amount charged to the subaward is accurate, allowable, and properly allocated.

Because practices vary as to the activity constituting a full workload, records may reflect categories of activities expressed as a percentage distribution of total activities.

For records which meet the standards described above, the subrecipient will not be required to provide additional support or documentation for the work performed, other than the requirements of the Department of Labor regulations implementing the Fair Labor Standards Act (FLSA) (29 CFR Part 516), for charges of nonexempt employees' salaries and wages. In addition to the supporting documentation described in this section, salaries must also be supported by records indicating the total number of hours worked each day.

Salaries and wages of employees used in meeting cost sharing or matching requirements on Federal awards must be supported in the same manner as salaries and wages claimed for reimbursement from Federal awards.