



COUNTY OF LOS ANGELES

DEPARTMENT OF ECONOMIC OPPORTUNITY

CONTRACT COMPLIANCE DIRECTIVE

department
of economic
opportunity
COUNTY OF LOS ANGELES

DATE: February 5, 2024

NUMBER: CCD-23-05

Cost Allocation and Indirect Cost Rate Plan Requirements for DEO Subawards

EXECUTIVE SUMMARY:

The purpose of this Directive is to provide the Department of Economic Opportunity (DEO) subrecipients receiving any federal funds with the requirements for submission and approval of cost allocation plans and indirect cost rates.

This Directive supersedes Directive CCD-18-01, dated August 29, 2018. "Cost Allocation and Indirect Cost Requirements for DEO Subawards" and is effective on the date of release.

APPLICATION:

This directive applies to all Department of Economic Opportunity (DEO) federally funded subrecipients.

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, as amended.

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.

Allocation Base: An allocation base is the basis upon which an entity allocates its Facilities & Administration costs. An allocation base takes the form of a quantity, such as staff hours,

numbers of staff, direct salaries, square footage, or direct costs. The base applied must have a relationship with the cost to be distributed.

Cognizant Agency for Indirect Costs: means the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost rate proposals developed under this Part on behalf of all Federal agencies. The cognizant agency for indirect costs is not necessarily the same as the cognizant agency for audit. Further information regarding assignment of cognizant agencies for the establishment and oversight of indirect cost rates can be found at 2 CFR 200.19 of the Uniform Guidance.

For assignments of cognizant agencies see the following:

- (a) For IHEs: Appendix III to Part 200—Indirect (F&A) Costs identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs), paragraph C.10.
- (b) For nonprofit organizations: Appendix IV to Part 200—Indirect (F&A) Costs Identification and 2 CFR 200.19. Assignment, and Rate Determination for Nonprofit Organizations, paragraph C.1.
- (c) For state and local governments: Appendix V to Part 200—State/Local Government and Indian Tribe-Wide Central Service Cost Allocation Plans, paragraph F.1.

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 Allocation Plan (CAP): means the documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services (2 CFR 200.9).

The CAP is the written policy of the non-Federal entity which outlines the costs considered as direct, the costs considered to be indirect, and the rationale to support those costs. It is a disclosure of the organization's accounting practices, policies, and procedures for allocating direct and indirect costs. This document describes the methodology(ies) that will be used by the non-Federal entity to distribute costs to programs both directly and indirectly. The methodology(ies) for the distribution must be in reasonable proportion to the benefit provided or other equitable relationship.

The CAP is required documentation and requires a signature. It must have a detailed description of all the cost elements and the methodology(ies) for allocation.

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).

Facilities & Administration (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 benefitting cost objectives on bases that will produce an equitable result in consideration of relative benefits derived (2 CFR 200.56).

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 Cost Rate (ICR): is the percentage of expenses that cannot be traced back to any specific cost objective and that should be allocated to each cost object because of benefits received. In other words, it is how much of the total indirect cost pool (F&A costs) that each of the cost objectives should receive.

Intermediate Cost Objective: earns 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). (See also § 200.28 Cost objective and § 200.44 Final cost objective).

Modified Total Direct Costs (MTDC): means all (fringed 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, participant 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).

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). Subaward also means an award of State or local funding for the subrecipient to carry out programs as directed by the County.

Subrecipient: means a non-Federal entity that receives a subaward from a pass-through entity to carry out part of a local, State, or 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 AND PROCEDURES:

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

For charging indirect costs, all DEO subrecipients must have an approved plan from a cognizant Federal agency. If no such approval exists, subrecipients are allowed to charge a de minimis rate of no more than 10% of modified total direct costs incurred. No documentation is required to justify the 10% de minimis indirect cost rate (2 CFR 200.414(f)).

The CAP and the Indirect Cost Rate Plan (ICRP) will be required as part of the subrecipient's submission to DEO Request for Proposals. 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.

In order to certify the accuracy, the subrecipient shall sign the CAP. The ICRP must include the approval document from the Federal agency.

Submission of a CAP and ICRP does not automatically confer approval.

Every cost included in the CAP shall be supported by formal, documented accounting records, and the basis for its distribution must be calculated by actual usage (e.g., time distribution, number of clients served, square footage).

Arbitrary percentages or estimates are not allowed. With the exception of an ICRP approved by a cognizant agency, DEO reserves the right to require changes to the submitted CAP.

By May 1 of each subaward year after the first subaward year in a multi-year term, subrecipient shall submit written confirmation that its CAP and ICRP methodology(ies) will remain in effect throughout the following subaward year.

In the event that the CAP and/or ICRP methodology(ies) must be revised for the following subaward year, then the subrecipient shall submit the revised methodology(ies) to the County's Contract Manager by May 1 of the current subaward year.

The CAP may only be revised once during any subaward year.

The CAP and ICRP must be forwarded to DEO at the following address:

Department of Economic Opportunity
Contract Compliance Division
510 S. Vermont Avenue, 11th Floor
Los Angeles, CA 90020

Email: Compliance@opportunity.lacounty.gov

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 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 Federal 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.

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.

Indirect Costs: These costs may originate in the subrecipient's own organization or in other departments that supply goods, services, or facilities to the DEO 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 DEO funded program cannot be shown without effort disproportionate to the results achieved. Indirect costs are charged back to the program using an approved indirect cost rate. With the exception of a de minimis rate of 10%, indirect costs are required to have a documentable and Federally approved basis of allocation.

Indirect cost rates place ceilings on the amount that may be charged to the subaward for facilities and administration costs and are only applicable if the subrecipient utilizes one of the following:

- A Federally approved indirect cost rate negotiated between the subrecipient and the Federal government, or
- If no Federally approved indirect cost rate exists, the subrecipient may elect to use a de minimis indirect cost rate of 10% of Modified Total Direct Costs (MTDC) which may be used indefinitely. 2 CFR 200.331 (a)(4); 2 CFR 200.414.

These requirements apply regardless of whether the costs are classified as Administration or Program.

For those subrecipients who have Federally approved indirect cost rates, this guidance is meant to ensure compliance with those rates, absent any caps imposed by law. Detailed direction on the development of the ICRP should be provided by the subrecipient's cognizant Federal agency.

In general terms, an ICR is the percentage of an organization's indirect costs to its direct costs and is a standardized method of charging individual programs for their share of indirect costs.

The ICR can be used to budget the maximum amount of indirect costs allowable for a program and then to claim the actual amount of indirect costs after the program expenditures have been made.

It is important to remember that when recovering/charging indirect costs, the ICR is applied to the amount actually expended, not the total amount budgeted. Those actual expenditures must be documented, and documentation must be submitted as required. The indirect cost rate proposal identifies and distributes the costs of services provided by support organizations (such as human resources, fiscal, upper-level management) to the funding source(s) of a subrecipient.

It is the responsibility of the subrecipient to ensure that any indirect costs charged to a DEO subaward do not exceed the amount approved in the subaward budget and that the plan is current.

Indirect costs will be reimbursed if one of the following is in place:

- **A 10% de minimis rate or**
- **A Federally approved provisional or final rate.**

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 for 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 DEO 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.

ALLOCATION OF SHARED COSTS:

Allocating Shared Personnel Services Costs: Amounts charged to DEO 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 DEO 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 DEO and non-DEO);
 - 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 charges 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 employee' 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.

For local government subrecipients, substitute processes or systems for allocating salaries and wages to DEO subawards may be used in place of or in addition to the records described in the paragraph above if approved by the cognizant Federal agency for indirect cost. Such systems may include, but are not limited to, random moment sampling, "roiling" time studies, case counts, or other quantifiable measures of work performed.

Allocating Shared Nonpersonnel Services Costs: Nonpersonnel services costs, when directly associated with time worked by the subrecipient's staff, may also be allocated to the benefiting cost objectives based on documented distributions of actual time worked. These costs could include space costs, utilities, building maintenance, supplies, and other such costs correlated with staff usage. To use time distribution as the basis for allocation of nonpersonnel services costs, time worked must be an equitable measure of the benefit derived from nonpersonnel services costs.

Example: Desktop supplies are stored centrally and used by all staff in performing their jobs. It is reasonable to conclude that the supplies are used in the same manner and for the same purpose as the time spent by staff while using the supplies. It is acceptable to use time distribution as the basis for allocating the cost for desktop supplies to various cost categories.

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 type of common costs when it is practical or necessary to pool such costs.

Example: A subrecipient has staff members who conduct registration for both a DEO program and other programs. The manager is responsible for overseeing and managing the client flow process, supervising the staff, and reporting to the deputy director. All costs are unassignable, initially pooled, and charged temporarily to a cost pool account. These costs include the salary and fringe benefits of the staff conducting the registration and their manager, materials, phones, and other related costs required to carry out the registration 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 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, planned benefit, or percentage of funding by program is not allowable.

ALLOCATION BASES:

When costs are pooled instead of being directly assigned to a final cost objective, the ability to directly assign benefit for each item of cost is lost. Instead, the pool contains a group of common costs to be allocated by using an indirect or approximate measure of benefit. The approximate measure of benefit is the allocation base. An allocation base is the method of documentation used to measure the extent of benefits received when allocating joint costs among multiple cost objectives.

Many different types of bases can be used in allocating costs. The most appropriate base will vary with the circumstances prevailing in each instance. An organization is likely to use several different bases for allocating different types of costs. Acceptable methods for distributing pooled costs may vary by type of organization, functional units or levels within an organization, types of cost to be allocated, and cost category. The basis used to allocate a particular type of cost should be used consistently over time and be described in the CAP.

Acceptable Allocation Bases: An allocation base is acceptable if it represents a fair measure of cost generation or cost benefit, is documented, and results in an equitable distribution of the costs of services rendered or goods provided. Each base should be considered on its own merits as to the purpose for using it and the degree of equity it will achieve in allocating joint costs. In selecting a method, the additional effort and expense required to achieve a greater degree of accuracy should be considered. General criteria that should be used in selecting an allocation base include the following:

Minimal Distortion: The base should distribute costs in a fair and equitable manner without distorting the results. This requires that the base be as causally related as possible to the types of costs being allocated so that benefit can be measured as accurately as possible.

Example: It is appropriate to allocate pooled registration costs based on the proportionate number of eligible applicants per program, since there is a direct relationship between incurring registration costs and determining eligibility. It is also appropriate to use the number of new registrants by program as the basis for allocating these costs when registrations provide an equitable measure of effort, since the benefit of activity is the eventual registration of clients into the programs.

General Acceptability: The base should be generally accepted and in conformance with GAAP. For example, it should be consistently applied over time. The base should also be drawn from the same period during which the costs to be allocated have been incurred.

Example: It is not appropriate to change the base for allocating a pooled cost from quarter to quarter, such as using direct program expenditures in the first quarter, number of clients served in the second quarter, and time distribution in the third quarter. It is also not appropriate to use last year's client data as the basis for allocation for this year's expenditures.

Represents Actual Cost or Effort Expended. The base should be a measure of actual cost or actual effort expended. It should not be based solely on a plan, budget, job description, or other estimates of planned activity.

Example: Pooled costs may not be allocated to subawards on the basis of the proportionate amount of funds available from each funding source. It is generally not appropriate to use the relative amount of funds required to be spent as the basis for allocating this pool of costs since budgets are not a measure of actual activity or effort.

Timely Management Control: The base should be within management's ability to control on a timely basis. The base should produce reliable and fairly predictable results. If the base is erratic and unpredictable, beyond management's ability to control, or not timely, it is likely to produce unacceptable results.

Example: If a subrecipient uses client data as the base for allocating some of its organization-wide costs, it risks having the data used for allocation skewed by periods of poor performance. The inconsistency of a client population as the basis for allocation of its organization-wide costs hinders management's control of organizational expenses.

Consistency with Variations in Funding: The base must be able to accommodate and withstand changes in funding during the year and from year to year. If the base includes factors that are affected by variations in funding, it will produce distorted results.

Example: It is not appropriate to allocate costs using a basis that does not include all benefiting funding received during the year. If an organization operates a six-month funded program, then shared costs associated with that program must be included in the mix of activities during that six-month period, or the distribution of costs may not be equitable.

Materiality of Costs Involved: The time and expense spent in developing the base should not be greater than justified by the materiality of the costs to be allocated. In other words, the subrecipient should not spend more on obtaining the information needed to allocate pooled costs than the dollars in the pool warrant. The base should be sufficiently detailed to provide the most equitable and accurate allocation possible. At the same time, the base should be simple enough to be efficient while still attaining a fair distribution of costs.

Example: It is not appropriate to fold a larger pool of costs, such as management staff costs, into another unrelated pool of costs rather than allocate the costs separately or to distribute staff costs equally among the programs. For pooled management staff costs, a base should be used that more accurately measures benefit to each program, such as direct time charges per program.

Practicality and Cost of Using the Base: The base should be as efficient as possible in terms of the cost or effort in developing it. Thus, wherever possible, a database that already exists in the subrecipient's record keeping and reporting systems should be used rather than create a separate database to be used only for allocating costs.

Example: It is appropriate and more efficient, without unduly sacrificing accuracy, to allocate client transportation costs using current enrollment data that is already available, rather than creating a separate data base on the exact number of clients receiving transportation assistance by type of client.

What is the Best Base?: There is no single answer to this question. The answer varies by type of organization, levels within an organization, organization structure, method of program delivery, accounting and client reporting systems, types of costs included in the pool, and availability of other types of data to use as a base. The general guidelines presented here can be used to help with decision-making.

When choosing among available bases, a base should be chosen that is more directly related to, and the better measure of, the costs being allocated and the benefits being received.

Subrecipients are encouraged to develop and use appropriate expenditure bases (such as number of clients enrolled) to allocate joint costs. Where a subrecipient conducts several human services programs with multiple funding sources and uses an automated accounting system, an appropriate expenditure base is usually one that reflects time spent or clients served. This is also a more easily managed base than using multiple bases or a base dependent upon additional sources of information.

Possible Bases for Allocation: Some possible bases for allocation are as follows. These are suggested bases only, and subrecipients are cautioned to review these bases for applicability to their programs. In addition, any base used for allocation of costs must comply with the requirement for an allowable base.

- Accounting — Number of transactions; direct labor hours; allowable survey methods
- Auditing — Direct audit hours; expenditures audited
- Budgeting— Direct labor hours
- Consumable Supplies — Total direct costs; direct labor hours
- Counselor — Direct labor hours; number of clients counseled
- Data Processing System — Usage; direct labor hours
- Fidelity Bond — Number of bonded employees
- Health Services — Number of employees
- Registration — Number of eligible clients; current period enrollments
- Legal Services — Direct hours
- Office Space — Square feet of space occupied; staff salary distribution
- Payroll Services — Number of employees
- Personnel Services — Number of employees

- Postage — Direct usage; acceptable survey methods
- Printing/reproduction — Direct labor hours; job basis; pages printed
- Retirement System — Payroll; number of employees contributing administration
- Telephone — Number of instruments; staff salary distribution
- Travel — Mileage; actual expenses; direct labor hours
- Utilities — Square feet of space occupied; staff salary distribution

Unacceptable Allocation Bases: In general, unacceptable allocation bases are those that do not meet the general guidelines discussed above. Unacceptable bases are those that:

- Distort the final results
- Do not represent actual effort or actual expenditures
- Are not used consistently over time and with variations in funding
- Do not have an integral relationship to the types of costs being allocated.

Some commonly used bases that fall into this unacceptable category include the use of:

- Relative funds available to allocate unassigned direct costs
- Job descriptions to allocate staff costs
- Fixed or predetermined number of staff hours assigned to an activity to allocate staff costs
- Planned client levels to allocate client-related costs
- Results from prior periods to allocate current period costs
- Use of budgeted, estimated, or projected data to determine their allocation base

ALLOCATION METHODOLOGIES:

The following are suggested methodologies for the distribution of shared costs:

- A. Compensation for Personnel Services: Documented with timesheets showing time distribution for all employees and allocated based on time spent on each program or grant. Salaries and wages are charged directly to the program for which work has been done. Costs that benefit more than one program will be allocated to those programs based on the ratio of each program's salaries to the total of such salaries (see Example 1). Costs that benefit all programs will be allocated based on the ratio of each program's salaries to total salaries (see Example 2).
- B. Fringe benefits (FICA, UC, and Worker's Compensation) are allocated in the same manner as salaries and wages. Health insurance, dental insurance, life & disability, and other fringe benefits are also allocated in the same manner as salaries and wages.

Vacation, holiday, and sick pay are allocated in the same manner as salaries and wages.

- C. Travel Costs: Allocated based on purpose of travel. All travel costs (local and out-of-town) are charged directly to the program for which the travel was incurred. Travel costs that benefit

more than one program will be allocated to those programs based on the ratio of each program's salaries to the total of such salaries (see Example 1). Travel costs that benefit all programs will be allocated based on the ratio of each program's salaries to total salaries (see Example 2)

- D. Professional Services Costs (such as consultants): Allocated to the program benefiting from the service. All professional service costs are charged directly to the program for which the service was incurred. Costs that benefit more than one program will be allocated to those programs based on the ratio of each program's expenses to the total of such expenses (see Example 3). Costs that benefit all programs will be allocated based on the ratio of each program's expenses to total expenses (see Example 4)
- E. Office Expense and Supplies (including office supplies and postage): Allocated based on usage. Expenses used for a specific program will be charged directly to that program. Postage expenses are charged directly to programs to the extent possible. Costs that benefit more than one program will be allocated to those programs based on the ratio of each program's expenses to the total of such expenses (see Example 3). Costs that benefit all programs will be allocated based on the ratio of each program's expenses to total expenses (see Example 4).
- F. Equipment: (Subrecipient's Name) depreciates equipment when the initial acquisition cost exceeds \$x,xxx. Items below \$x,xxx are reflected in the supplies category and expensed in the current year. Unless allowed by the awarding agency equipment purchases are recovered through depreciation. Depreciation costs for allowable equipment used solely by one program are charged directly to the program using the equipment. If more than one program uses the equipment, then an allocation of the depreciation costs will be based on the ratio of each program's expenses to the total of such expenses (see Example 3). Costs that benefit all programs will be allocated based on the ratio of each program's expenses to total expenses (see Example 4).
- G. Printing (including supplies, maintenance, and repair): Expenses are charged directly to programs that benefit from the service. Expenses that benefit more than one program are allocated based the ratio of the costs to total expenses. Costs that benefit more than one program will be allocated to those programs based on the ratio of each program's expenses to the total of such expenses (see Example 3). Costs that benefit all programs will be allocated based on the ratio of each program's expenses to total expenses (see Example 4).
- H. Insurance: Insurance needed for particular program is charged directly to the program requiring the coverage. Other insurance coverage that benefits all programs is allocated based on the ratio of each program's expenses to total expenses (see Example 4).
- I. Telephone/Communications: Long distance and local calls are charged to programs if readily identifiable. Other telephone or communications expenses that benefit more than one program will be allocated to those programs based on the ratio of each

program's expenses to the total of such expenses (see Example 3). Costs that benefit all programs will be allocated based on the ratio of each program's expenses to total expenses (see Example 4).

- J. Facilities Expenses: Allocated based upon usable square footage. The ratio of total square footage used by all personnel to total square footage is calculated (see Example 5). Facility costs related to general and administrative activities are allocated to program based on an acceptable indirect cost rate.
- K. Training/Conferences/Seminars: Allocated to program benefiting from the training, conferences, or seminars. Costs that benefit more than one program will be allocated to those programs based on the ratio of each program's salaries to the total of such salaries (see Example 1). Costs that benefit all programs will be allocated based on the ratio of each program's salaries to total salaries (see Example 2).
- L. Other Costs (including dues, licenses, fees, etc.): Other joint costs will be allocated on a basis determined to be appropriate to the particular costs. (Subrecipient should describe methodology for applicable costs).

Example 1

Expense Amount = \$5,000

Costs that are shared and benefit two or more specific programs, but not all programs, are allocated to those programs based on the ratio of each program's personnel costs (salaries & applicable benefits) to the total of such personnel costs, as follows:

The amount to be allocated among various programs is \$5,000. Grant A (below) represents DEO' program. Based on the direct costs of personnel, subrecipient can calculate that Grant A should be allocated 20%, since \$20,000 of the \$100,000 total personnel costs pertained to Grant A. Therefore, 20% of the \$5,000 to be allocated should go to Grant A, which is \$1,000.

Grant	Personnel Costs	%	Amount Allocated
A	\$20,000	20%	\$1,000
B	\$30,000	30%	\$1,500
C	\$50,000	50%	\$2,500
Total	\$100,000	100%	\$5,000

Example 2

Expense Amount = \$10,000

Costs that are shared benefit all programs allocated based on a ratio of each program's personnel costs (salaries & applicable benefits) to total personnel costs as follows:

The amount to be allocated among various programs is \$10,000. Grant A (below) represents DEO program. Based on the direct costs of personnel, subrecipient can calculate that Grant A. Therefore, 13% of the \$10,000 to be allocated should go to Grant A, which is \$1,300.

Grant	Personnel Costs	%	Amount Allocated
A	\$20,000	13%	\$1,300
B	\$10,000	7%	\$700
C	\$30,000	20%	\$2,000
D	\$40,000	27%	\$2,700
E	\$50,000	33%	\$3,300
Total	\$150,000	100%	\$10,000

Example 3

Expense Amount = \$4,000

Costs that are shared and benefit two or more specific programs, but not all programs, are allocated to those programs based on the ratio of each program's expenses (direct costs other than salaries & benefits) to the total of such expenses, as follows:

The amount to be allocated among various programs is \$4,000. Grant A (below) represents DEO program. Based on the direct costs of program expenses, subrecipient can calculate that Grant A should be allocated 30%, since \$120,000 of the \$400,000 total personnel costs pertained to Grant A. Therefore, 30% of the 4,000 be allocated should go to Grant A, which is \$1,200.

Grant	Program Expenses	%	Amount Allocated
A	\$ 120,000	30%	\$1,200
B	\$ 130,000	33%	\$1,320
C	\$ 150,000	37%	\$1,480
Total	\$ 400,000	100%	\$4,000

Example 4

Expenses Amount = \$8,000

Costs that are shared and benefit all programs will be allocated based on a ratio of each program's salaries to total salaries as follows:

Grant	Program Expenses	%	Amount Allocated
A	\$120,000	18%	\$1,440
B	\$110,000	17%	\$1,360
C	\$130,000	20%	\$1,600
D	\$140,000	22%	\$1,760
E	\$150,000	23%	\$1,840
Total	\$650,000	100%	\$8,000

Example 5

Facilities Expense Amount = \$10,000

Shared facilities costs are allocated based on square footage. Square footage for each program and general administrative activity is considered in the analysis. Facilities and space that is allocable to the indirect cost category are distributed back to programs through the indirect cost rate. The calculation for shared facilities costs is as follows:

Grant	Square Footage	%	Amount Allocated
A	300	30%	\$3,000
B	100	10%	\$1,000
C	200	20%	\$2,000
D	200	20%	\$2,000
E	200	20%	\$2,000
Total	1,000	100%	\$10,000

Example 6

Cost Allocation of General Administrative (G &A) Expense

Facilities Expense Amount = \$10,000

Facility Expenses (includes rent, utilities, maintenance, mortgage interest and depreciation, and property taxes) — Allocated based upon usable square footage. The ratio of total square footage used by all personnel to total square footage is calculated. Facilities costs related to general and administrative activities are allocated to program based on the ratio of program square footage to total square footage (see Example below).

Facilities costs are allocated based on square footage. Square footage for each program and general and administrative activity is considered in the analysis. General and administrative facilities costs are further allocated to each program based on the square footage of each grant program to the total square footage of all grant programs. The calculation is as follows:

Grant	Square Footage	%	Amount Allocated	G&A Allocated	Total Amount Allocated
A	300	30%	\$3,000	\$ 340	\$3,340
B	100	10%	\$1,000	\$ 110	\$1,110
C	200	20%	\$2,000	\$ 220	\$2,220
D	200	20%	\$2,000	\$ 220	\$2,220
E	100	10%	\$1,000	\$ 110	\$1,110
G&A	100	10%	\$1,000	0	0
Total	1,000	100%	\$10,000	\$1,000	\$10,000

DEVELOPMENT OF THE COST ALLOCATION PLAN (CAP):

Any cost that is not directly assignable to a category of expenditure and requires a methodology for its distribution must be included in a DEO approved CAP.

The CAP is a document that identifies allowable indirect, direct, and shared costs and is used to accumulate and distribute such costs. The allocation plan also identifies the allocation methodology(ies) used for distributing the costs. A plan for allocating shared costs is required to support the distribution of those costs to each subaward program. All costs included in the plan must be supported by formal accounting records to substantiate the propriety of the eventual charges. **An indirect cost rate or 10% de minimis rate must be approved in order to charge facilities and administration costs to the subaward.**

Attached as Attachment A is a sample format for the development of a CAP for the distribution of shared costs among DEO and non-DEO programs.

The subrecipient is to use data for a complete fiscal year (e.g., July 1, 2022, to June 30, 2023) to ensure that all costs are captured for the period. The CAP methodology is to be used continuously for the entire year of a subaward beginning July 1 of each year.

The subrecipient must identify all types of shared costs that will be allocated among programs and the methodology that will be used to make that distribution to cost objectives in the plan submission. The following are the procedures for the development of the plan:

1. Review Subaward Funding

Prepare a list of all funded programs.

2. Organization Review

If one does not already exist, prepare an organizational chart, and identify the various services and/or functions for each unit. Determine which units are direct or shared functions of the organization and which are categorized as indirect.

Determine the services that are allowable and allocable to subawards per the cost principles in the Uniform Guidance.

3. Prepare a CAP (See Attachment A as an example.)

Develop a written policy that outlines the costs considered as indirect, direct, and the costs considered as shared among programs and the rationale to support those costs.

This would include all joint or pooled costs needing to be allocated (such as staff whose work benefits more than one cost objective, cost pools established other types of pooled costs, and all other costs that cannot be readily assigned to a single cost objective).

Describe the methods used in distributing the expenses to benefiting cost objectives. This requires identifying the basis for allocating each type of joint or pooled cost and the documentation for supporting each basis for allocation.

For every cost, the subrecipient must provide the basis for its distribution (e.g., time distribution, number of clients served, square footage).

Arbitrary percentages are not allowable. Any direct salary that is distributed to more than one program must also be supported by an allowable time distribution methodology. Time distribution must be based on after-the-fact determination of actual activity performed by employees and not estimates.

The subrecipient must maintain a time distribution system for use by employees whose time is charged to more than one cost objective. Payroll documentation should be maintained to support the charging of salaries and wages as direct or indirect.

Allocation of Indirect Costs: The subrecipient must state whether or not it will apply a Federally approved ICR or a 10% de minimis rate to indirect costs.

4. Review Proposal Before Submission

Ensure the allocation plan reflects all programs and personnel identified in the organization chart.

5. Certification

The document (Attachment A) must be certified by an authorized subrecipient official that the plan has been prepared in accordance with applicable requirements and will be the method used to allocate costs and charge indirect costs to the subaward.

RETENTION OF RECORDS:

Subrecipient's should adhere to the contract's records retention period requirements. Depending on the terms of the individual contract the record retention period shall be the greater of the following: throughout the entire term of each Subaward/contract which is either no less than three (3) or five (5) years) after the expiration or termination of each contract unless Subrecipient receives County's written permission to dispose of any such material prior to such time; potentially beyond that term if an audit of this Subaward has occurred and in that case retention must last until a written audit resolution has been issued or unless otherwise authorized in writing by County; or, for such longer period, if any, as required by applicable statute, by any other provision of this Subaward, or as County deems necessary (which shall be communicated to Subrecipient in writing).

If this Subaward (or any part thereof) is terminated, Subrecipient shall preserve and make all records, relating to the Work terminated, available during the authorized retention period of this Subaward. Subrecipient shall ensure that any resource directories and all Client records remain the property of County upon termination of this Subaward, and that they are returned to County or transferred to another subrecipient as instructed by County in writing.

In the event of any litigation, claim, negotiation, audit exception or other action involving the records, Subrecipient shall maintain all records relative to such action and shall make them available to County and/or its duly authorized representatives until every action has been cleared to the satisfaction of County and/or its duly authorized representatives, and such clearance must be evidenced to Subrecipient in writing.

ACTION:

All federally funded DEO Subrecipients must ensure that the requirements described herein are communicated throughout their operations, management, and governance structure of their respective organization and that this Directive is adhered to until further notice.

INQUIRIES:

Inquiries regarding this directive and the policies and procedures described herein should be directed to Anna Schwartz Aschwartz@opportunity.lacounty.gov.



**Bill Evans, Administrative Director
Department of Economic Opportunity**

Attachments:

A — Sample Cost Allocation Plan

Note: This attachment should be utilized as an example only and should not be copied as an acceptable plan.

COST POLICY STATEMENT

(Subrecipient Name and Address)

The purpose of this cost allocation plan is to summarize, in writing, the methods and procedures that this organization will use to allocate costs to various programs, subgrants, contracts and agreements.

The Uniform Guidance at 2 CFR Chapter I and Chapter II, Parts 200, 215, 220, 225, and 230 establishes the principles for determining costs of subgrants, contracts and other agreements in Federally funded programs. In accordance with Federal cost principles and procedures outlined in the Code of Federal Regulations (CFR) Part 200, this Cost Allocation Plan is based on the Direct Allocation method which treats all costs as direct costs. Shared costs will be allocated to subgrants, contracts and agreements on the bases described below. General administration and general expenses will be billed on (an approved indirect rate or De Minimis Rate of 10%).

Direct costs are those that can be identified specifically with a particular final cost objective. Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. Only costs that are allowable, in accordance with the cost principles, will be allocated to benefiting programs by (Subrecipient's Name).

A. GENERAL AND ADMINISTRATIVE COSTS

All general and administrative costs of the organization are distributed to subawards based on an approved indirect cost rate (copy attached).

De Minimis Rate of 10%: Yes _____ No _____

Indirect Cost Plan Approved by: (Federal Agency) _____

Approval Period _____

Indirect Cost Rate Allocation Base: _____

B. GENERAL ACCOUNTING POLICIES

1. Basis of Accounting: Accrual Basis

2. Fiscal Period: — July 1 through June 30

3. Allocation Basis for Individual Cost Elements: Direct Allocation Basis

(Subrecipient Name) maintains adequate internal controls to ensure that no cost is charged both directly and indirectly to County of Los Angeles the Department of Economic Opportunity (DEO) subawards and other subawards and subcontracts.

C. DESCRIPTION OF METHODOLOGIES

The following information summarizes the procedures that will be used by (Subrecipient's Name) :

Personnel Costs:

1. Salaries and Wages

Direct Costs: The majority of (Subrecipient Name)'s employees direct charge their time since their work is specifically identifiable to specific subawards, services to clients. The charges are supported by auditable labor distribution reports which reflect the actual activities of the employees.

Shared costs will be distributed to programs based on (e.g., time distribution, number of clients served, direct expenditures). Documentation will be maintained to support this distribution.

Indirect Costs: The following staff charge 100% of their salary costs indirectly: (List the positions of those employees who charge 100% of their time to indirect activities.)

The distinction between direct and indirect is primarily based on functions performed.

For Example, when the Executive Director is performing functions that are necessary and beneficial to all programs, they are indirect. When functions are specific to one or more programs, they are direct because they do not benefit all programs.

Multiple Cost Objectives: The following employees may charge their salary costs to both direct, indirect, or multiple cost objectives:

(List those employees who charge their time to both direct and indirect or multiple cost objectives.)

Auditable time distribution records which reflect the actual activities of employees are maintained to support the charges to indirect, direct, and multiple cost objectives.

2. Fringe Benefits

(Subrecipient Name) contributes to the following fringe benefits for its employees:

- a. Unemployment insurance,
- b. Worker's compensation,
- c. F.I.C.A., health insurance and
- d. Matching contributions to a defined benefit pension plan.

Treatment of Fringe Benefits: (Subrecipient Name)'s accounting system tracks fringe benefit costs by individual employee and charges those costs directly or indirectly in the same manner as salary and wage costs are recorded. (Subrecipient Name) does not need to have a fringe benefit rate established.

Treatment of Paid Absences: Release time costs (vacation leave earned, sick leave used and holiday pay) are considered part of salary costs. Consequently, separate claims for release time costs are not made. (Subrecipient Name)'s accounting system records release time as a direct or indirect cost in the same manner that salary costs are recorded. Vacation leave earned but not used during each fiscal period is recorded as a cost in the period earned.

Non-personnel Costs:

The methodology for distribution of a shared cost will be identified for each item:

1. Travel

Travel costs may be charged as either direct, shared, or indirect costs depending on the purpose of the trip. The methodology for distribution of a shared cost will be _____.

For Example: The Executive Director of the subrecipient travels to attend a workshop on executive management organizational skills. The trip would be indirect in nature and would be charged as an indirect cost. However, if the Executive Director travels to a conference delivering information for a specific program administered by the subrecipient, the trip would be considered a direct cost.

2. Board Expenses (if applicable)

For those subrecipients that are nonprofit organizations, most board meeting expenses are charged on an indirect basis because their activity benefits the entire organization. Board expenses for member attendance at meetings involving specific programs administered by the subrecipient may be charged as a direct cost to that program.

Most directors of public benefit corporations serve on a volunteer basis, and do not receive compensation, other than occasional reimbursement for actual expenses of attending meetings (mileage, parking fees, and meal costs). However, California

law permits directors to receive reasonable "compensation as a director or officer," and distinguishes such compensation from other payments to directors that raise conflict of interest questions. It is the subrecipient's responsibility to document the expenses and demonstrate that they were reasonable and necessary.

3. Supplies and Materials

To the maximum extent possible, office supplies and materials are direct charges to a subaward which uses the supplies or materials.

Supplies and materials used by staff who are engaged in multiple cost objectives may be charged as either direct, shared, or indirect costs. The methodology for distribution of a shared cost will be _____.

4. Occupancy Expenses

Rent and related costs of occupancy (e.g., utilities, maintenance, and security) may be charged as either direct, shared, or indirect costs. The methodology for distribution of a shared cost will be _____.

5. Communications

The cost of communications (FAX, internet, land lines, cell phones) may be charged as either direct, shared, or indirect costs. The methodology for distribution of a shared cost will be _____.

6. Photocopying and Printing

With the exception of printing activity for a specific program that will be charged directly, all other photocopy and printing costs) may be charged as either direct, shared, or indirect costs. The methodology for distribution of a shared cost will be _____.

9. Outside Services

(Subrecipient Name) incurs outside services costs for its annual audit, consultant, legal fees, and for staff development specialists.

The cost of the annual audit is charged indirectly.

Consultant fees are charged either directly or indirectly based on the services rendered.

In general, allowable legal fees are charged directly to the benefitting program or activity.

Allowable legal fees that are not identifiable to specific direct programs are charged indirectly.

10. Depreciation

The cost of capital items purchased with non-Federal funds which are used in a manner which benefits Federal subawards is recovered through depreciation charged. (Subrecipient Name) recovers the cost of capital items using the straight-line depreciation method in accordance with generally accepted accounting principles. Depreciation is charged either directly or indirectly based on the benefits received.

Depreciation may not be charged if the subrecipient has been reimbursed for the purchase of the item through the subaward agreement.

11. Program Services

The cost of activities performed primarily as services to participants, clients, or the general public are classified as direct costs and bear their fair share of indirect costs. These activities include:

- Training Costs
- Supportive Service Costs
- Maintenance of Registration Data
- Subscriptions
- Publications providing information to members, legislative or administrative bodies, or the public
- Program marketing and outreach
- Meetings and conferences except those held to conduct the general administration of (Subrecipient Name)

12. Unallowable Costs

(Subrecipient Name) recognizes that unallowable costs, as defined in the Uniform Guidance at 2 CFR Section 421-475), cannot be charged to Federal subawards and has internal controls in place to ensure that this is followed.

Examples of unallowable costs are included but not limited to:

- Advertising and public relations
- Entertainment/alcoholic beverages
- Contributions and donations
- Capital expenditures
- Interest expense
- Lobbying and fund raising

CERTIFICATION

All costs included in this plan are properly allocable to County of Los Angeles DEO subawards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable Federal cost principles.

Signature

Date

Title