

***New Jersey Association of County Finance Officers
Training Session
Cost Allocation Plans and Cost Reimbursement Claims***

About This Training Course

This training course was designed to provide county finance officers and other governmental finance professionals with the basic principles and standards for determining costs and generating reimbursement associated with Federal and State grants and contracts, as well as other cost accounting needs for government services such as: user fee determinations; charges to enterprise funds; cost-benefit analyses; charge-back systems; and privatization studies.

Firm Background

Pino Consulting Group, Inc. (“PCG”) is a government focused consulting firm that provides costing, revenue maximization and financial management consulting services. PCG has delivered upon the financial management needs of governments across the country for over thirty (30) years,. PCG has prepared more than 600 cost analysis projects for city, county and state government agencies. We are leading experts in cost allocation plan preparation with specific knowledge and understanding of Federal requirements. We also have substantial experience assisting Government-operated healthcare facilities with Federal and State cost reporting, compliance and fiscal management needs.

Brief Biographies

Alfred Pino, CGFM, President is an expert in the field of governmental cost accounting and reimbursement. His experience includes over forty (40) years in the public sector as an auditor, a finance manager of complex governmental operations, and as a consultant to governmental clients. Mr. Pino was a negotiation specialist with the U.S. Department of Health and Human Services; he reviewed and negotiated indirect cost allocation plans and rate computations for hospitals, state and county governments, colleges and universities, and non-profit organizations. He also developed training models and case studies which were used to train grantees and contractors in the preparation and application of indirect cost allocation plan and rates. Mr. Pino was also the Director of Finance for the New Jersey Department of Human Services.

Joseph Pino has worked for PCG for more than twenty (20) years and is a subject matter expert in various Federal and State reimbursement programs. Joseph has significant experience developing comprehensive cost allocation and recovery programs and has made significant contributions in the development of complex revenue enhancement initiatives. Joseph has assisted in the completion of more than 400 cost analysis and reimbursement projects.

**New Jersey Association of County Finance Officers
Training Session
Cost Allocation Plans and Cost Reimbursement Claims**

Legal Basis for Cost Allocation Plans

Federal OMB Circular A-87 was issued to bring about more efficient administration of Federal grants and contracts, and to ensure that all Federal agencies use uniform cost reimbursement policies. It established a system whereby a single Federal Department, called the cognizant agency, acts for all Federal Departments in approving certain state and local costs associated with the performance of federally supported programs. The procedural history of OMB A-87 is as follows:

- 1968 - OMB A-87 Issued
- 1974 - OMB A-87 Reissued as FMC 74-4
- 1976 - OASC-10 Implementation Guide for FMC 74-4 Issued
- 1981 - FMC 74-4 Reissued as OMB A-87
- 1995 - OMB A-87 Reissued with Significant Revisions
- 1997 - ASMB C-10 Implementation Guide for OMB A-87 Issued
- 2004 - OMB A-87 Reissued with Significant Revisions
- 2005 - OMB A-87 Relocated to 2 CFR Part 225
- 2013 - OMB A-87 Reissued as part of 2 CFR Part 200

On December 26, 2013, the Federal Government issued the “**Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards**” (2 CFR Part 200), which superseded and streamlined the requirements previously set forth by Federal Office of Management and Budget (OMB) Circulars A-21, A-50 (in part), A-87, A-89, A-102, A-110, A-122 and A-133.

Pursuant to §200.403, direct and indirect costs charged to Federal programs must meet certain basic criteria including:

- a) Be necessary and reasonable for the performance of the Federal award.
- b) Be allocable to the Federal award.
- c) Conform to any limitations or exclusions set forth in the principles or in the Federal award.
- d) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- e) Be accorded consistent treatment.
- f) Be determined in accordance with the basis of accounting followed by the non-Federal government entity.
- g) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.
- h) Be adequately documented.

***New Jersey Association of County Finance Officers
Training Session
Cost Allocation Plans and Cost Reimbursement Claims***

Purpose of Cost Allocation Plan

Non-Federal government entities receive varying levels of compensation for resources they expend on federal and state sponsored programs. Compensation is provided through grant awards, cost reimbursement contracts, entitlements and other agreements. Some, but not all, federal and state programs provide for indirect cost reimbursement.

In order to recover and appropriately account for central service (indirect) costs, non-federal government entities are required to prepare a central service cost allocation plan and/or indirect cost rate proposals.

Pursuant to §200.9, a central service cost allocation plan means the documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a state, local government, or Indian tribe on a centralized basis to its departments and agencies. The costs of these services may be allocated or billed to users. Pursuant to §200.57, an 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.

An indirect cost rate is simply the ratio of total aggregated indirect costs divided by a common denominator base of total direct costs, direct salaries and wages, or another base which results in an equitable distribution.

Employee fringe benefit rates are typically required if the non-Federal entity does not specifically identify employee fringe benefit costs to individual employees. The non-Federal entity may instead develop employee fringe benefit rates by pooling employee fringe benefit costs and dividing these costs on the basis of entity-wide salaries and wages of the employees receiving the benefits (§200.431(d)).

Only non-Federal government entities that receive more than \$35 million in direct Federal funding must submit an indirect cost rate proposal for approval to the Federal government. Other non-Federal governmental departments or agencies are not required to submit their proposals for Federal approval unless they are specifically requested to do so by their cognizant agency.

Direct vs. indirect Cost

§ 200.412 Classification of costs.

There is no universal rule for classifying certain costs as either direct or indirect (F&A) under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost incurred for the same purpose

**New Jersey Association of County Finance Officers
Training Session
Cost Allocation Plans and Cost Reimbursement Claims**

be treated consistently in like circumstances either as a direct or an indirect (F&A) cost in order to avoid possible double-charging of Federal awards. Guidelines for determining direct and indirect (F&A) costs charged to Federal awards are provided in this subpart.

§ 200.56 Indirect costs.

Indirect 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 costs. Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

§ 200.413 Direct costs.

(a) *General.* Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs. See also § 200.405 Allocable costs.

§ 200.403(d) A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

General Requirements for Allocation of Salary Costs

- (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
- (2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
- (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

***New Jersey Association of County Finance Officers
Training Session
Cost Allocation Plans and Cost Reimbursement Claims***

- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Such documentary support will be required where employees work on:
- (a) More than one Federal award,
 - (b) A Federal award and a non-Federal award,
 - (c) An indirect cost activity and a direct cost activity,
 - (d) Two or more indirect activities which are allocated using different allocation bases, or
 - (e) An unallowable activity and a direct or indirect cost activity.
- (5) Personnel activity reports or equivalent documentation must meet the following standards:
- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
 - (b) They must account for the total activity for which each employee is compensated,
 - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
 - (d) They must be signed by the employee.
 - (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
 - (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
 - (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
 - (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

***New Jersey Association of County Finance Officers
Training Session
Cost Allocation Plans and Cost Reimbursement Claims***

Analysis of Functional Activities within a County Central Service Department

1. **Determine nature and extent of central services rendered. This involves detailed** interviews with central service unit heads and other appropriate personnel to specifically identify the various functional activities performed within each unit and the specific departments receiving or benefiting from each functional activity.
2. **Determine appropriate statistical data for allocating functional costs.** From the interview process discussed above and the review of record-keeping practices, it is critical to identify reliable and meaningful bases for allocating functional cost activities. Allocation statistics will be compiled which best measures the units of service rendered to the recipient of the services. This will ensure that costs are allocated on a reasonable and equitable basis.
3. **Perform a cost analysis for each central service organizational unit identified.** For each central service organization unit, prepare a worksheet reflecting the total expenditures of the unit as reported on the official financial statements. Separately identify unallowable and unallocable costs per 2 CFR Part 200. Separately identify the salary costs and related personnel costs, and the non-salary line item costs to the specific functional activities.
4. **Allocation of functional cost activities.** Separately allocate each functional cost activity to the other organizational units that benefit from or receive services from the central service activity unit.

Complexity of County-wide Central Service Cost Allocation Plans

1. Central Service Cost Allocation Plans (CSCAP) differ in size and scope depending on the organizational and cost structure of each government. For Example:
 - a. Union County, NJ Calendar Year 2017 Actual CSCAP:
 - i. 408 Pages
 - ii. 35 Central Service Departments
 - iii. 223 Functional Cost Centers
 - iv. 63 Final Cost Objectives
 - b. Somerset County, NJ Calendar Year 2017 Actual CSCAP:
 - i. 345 Pages
 - ii. 23 Central Service Departments
 - iii. 164 Functional Cost Centers
 - iv. 76 Final Cost Objectives

**New Jersey Association of County Finance Officers
Training Session
Cost Allocation Plans and Cost Reimbursement Claims**

Cost Reimbursement Claims for County-Owned Buildings

1. Cost Reimbursement Claims for County-owned buildings, i.e. Monetary Allowance in Lieu of Rent (MLR), shall be based on actual costs not-to-exceed reasonable comparable market costs for similar commercial properties.
2. Pursuant to the NJ Division of Local Government Services, fixed assets acquired after December 31, 1985 shall be valued on the basis of actual cost; prior to that time, they may be valued at cost or estimated historical cost (NJAC 5:30-5.6(a)(2)).
3. All applicable building related costs should be reported in the County-wide Central Service Cost Allocation Plan (CSCAP). The CSCAP should be used as the basis for preparing claim documents, i.e. WFNJ-230 forms for County Welfare Agencies and JUD forms Title IV-D Programs.

4. Sample Depreciation Calculation – Acquisition and Construction

a) Initial Acquisition Cost of Property	\$ 1,000,000
b) Less: Value of Land	<u>100,000</u>
c) Adjusted Acquisition Cost (a – b)	900,000
d) Additional Costs after Acquisition:	
e) Contractor (Construction) Payments	8,000,000
f) Professional Services	100,000
g) Capital Interest Expense Incurred Prior to Occupancy	<u>1,000,000</u>
h) Total Capitalized Costs (c + e + f + g)	\$10,000,000
i) Estimated Useful Life	<u>40 years</u>
j) Annual Depreciation Expense (h / i)	\$ 250,000

5. Sample Depreciation Calculation – Renovation/Improvement

a) Elevator Upgrades	\$ 500,000
b) Estimated Useful Life	<u>20 years</u>
c) Annual Depreciation Expense (a / b)	\$ 25,000
d) Roof Replacement	\$ 750,000
e) Estimated Useful Life	<u>25 years</u>
f) Annual Depreciation Expense (d / e)	\$ 30,000
g) Total Annual Improvement Depreciation (c + f)	\$ 55,000