



Cost Allocations and New 2018 Yellow Book

elliott davis

Brian D'Amico

Shareholder

Brian.DAmico@elliottdavis.com

803.255.1468

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- Process:
 - Identifying Common Costs
 - Aggregating Common Costs
 - Assigning Common Costs
 - Monitoring and Evaluating

- Align Reporting with Economic Realities
- Strategic Planning and Budgeting
- Measure and Improve Efficiencies
- Rate Decisions
- Cost Recoveries

- From Entity-wide services
- To departments, funds programs
- Entity specific

- Government Primary User
- Typical examples:
 - Motor pool
 - Warehouse/inventory
 - Data processing
 - Self-insurance

- Departments providing services:
 - Central billing and collections
 - Accounting
 - Payroll
 - Purchasing
 - Information Technology
 - City/County Manger

- Departments using central services:
 - Utilities
 - Law enforcement
 - Parks and recreation
 - Economic development
 - Capital projects and maintenance
 - Many, many others

- Simple to Complex
 - Reasonable percentage
 - Time and effort
 - Allocation bases

- Basis upon which an entity allocates overhead
 - Time sheets
 - Trouble tickets
 - Mileage
 - Square footage
 - Direct costs

- IT help desk supports University functions
- IT help desk budget of \$500,000
- Prior 3 years averaged 5,000 help tickets
- Determine plan for cost allocation

- “Charge” department \$100 per help ticket
- $\$500,000 / 5,000$ estimated tickets = \$100/ticket

- Special cost allocation plan
- Charge indirect costs to Federal Awards
- Cost recovery and fair treatment
- Rate charged on modified total direct costs

- Direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward
- Excludes capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward 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

- These are legitimate costs
- Should not unduly deny
- Basis is equitable treatment of federal and non-federal funds
- Negotiated rates accepted by all

- Rate negotiated under cognizant agency
- Plans submitted
- Documentation maintained
- Monitoring Results
- Certifications

- Institution of Higher Education
- Negotiated cost rate of 15% of MTDC
- Direct costs of the program for the period were 150,000 including equipment of 30,000 and subaward of 30,000
- Calculate MTDC and allowable indirect costs for the program

○ MTDC:

- \$150,000 less \$30,000 (equipment) and less \$5,000 (for subaward > \$25,000) = \$115,000

○ Indirect (F&A) Cost:

- \$115,000 X 15% = \$17,250

- Optional 10% Rate
- Never negotiated
- Applied to all Federal Awards
- Indefinitely and consistently used

- Subrecipients receive indirect cost reimbursement too
- Required communication
- Use of negotiated rate

- Stacking subawards does have effect
- Each layer at the \$25,000 per award per subrecipient (MTDC)

- \$300,000 passed-through 2 subrecipients all at 10% de minimis rate.
- Recipient receives \$300,000 distributes \$297,500 retains \$2,500 (10% of \$25,000 MTDC)
- Subrecipient 1 receives \$297,500 and distributes \$295,000 retains \$2,500
- Subrecipient 2 receives \$295,000 and expends \$268,182 on direct costs and retains \$26,818 in indirect costs

- Total indirect costs at all layers is \$31,818 and direct costs \$268,182
- Without subrecipients, direct costs of \$272,728 result in \$27,272

- Government Accountability Office (GAO) released its 2018 update
- Supersedes previous 2011 update

○ Key changes

- Reorganization and new clarified format
- Updated independence requirements
- Revised peer review requirements
- New guidance to address “waste”
- Other changes

○ Effective date

- Financial audits, attestation engagements and reviews of financial statement for periods ending on or after June 30, 2020
- Performance audits beginning on or after July 1, 2019.
- Early implantation is not permitted.



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