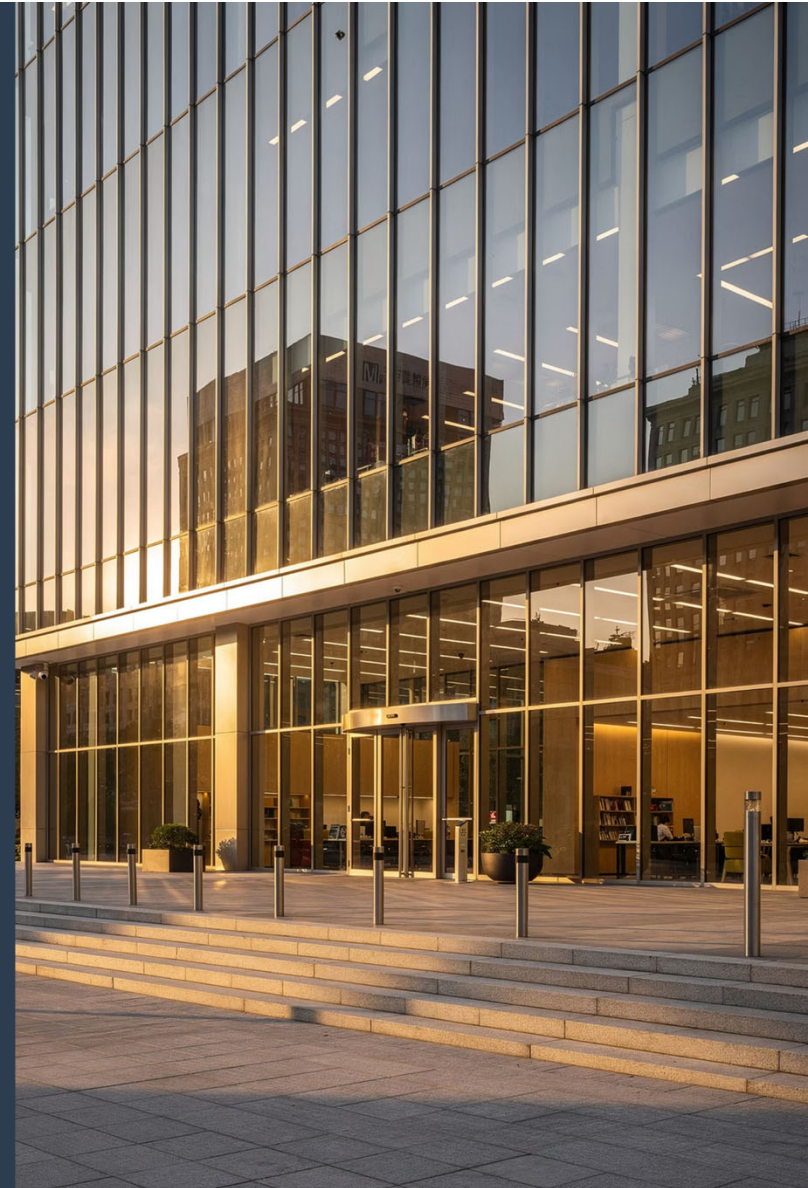


Cost Allocation in CSBG

Monitoring for Compliance, Consistency, and Practical Application

INTERACTIVE WORKSHOP

Presenters: Amy Dorn & Andrew Ferguson, CPA



Meet Our Presenters



Andrew Ferguson, CPA

SENIOR MANAGER

Andrew focuses primarily on audits of nonprofit entities, in particular Community Action Agencies and Head Start programs. His extensive expertise in single audit requirements and OMB Uniform Grant Guidance helps these organizations stay in compliance and operate soundly.



Amy Dorn

SENIOR MANAGER

Amy brings over 25 years of accounting experience to ACS. She oversees services and teams while specializing in nonprofit and grant accounting (including SBIR/STTR) and federal and state grants. With roots in bookkeeping, Amy values teaching clients how their daily work connects to their financial health and big-picture goals.

Learning Objectives

By the end of this session, you will be able to:

01

Define

Key federal cost allocation requirements applicable to CSBG

03

Identify

Characteristics of an acceptable cost allocation methodology

02

Distinguish

Between direct costs, indirect costs, admin costs, and program costs

04

Evaluate

Common CSBG monitoring issues and red flags

Poll #1: Confidence Check

 How confident are you in reviewing cost allocation methodologies during monitoring?

Very Confident

Comfortable reviewing and evaluating methodologies independently

Somewhat Confident

Generally comfortable but have occasional questions

Neutral

Some experience but not fully confident

Not Very Confident

Frequently uncertain when reviewing allocations

Need Significant Improvement

This topic is a major area for growth

Poll #2: Biggest Monitoring Challenges

 Which area creates the most monitoring challenges for you?



Personnel Allocations

Time and effort documentation, split-funded staff



Shared Occupancy Costs

Rent, utilities, and facility cost distribution



Indirect Cost Rates

Negotiated rates, de minimis, and state-approved methods



Documentation Deficiencies

Missing or insufficient support for allocations



Administrative Cost Limitations

Caps, classification issues, and compliance concerns

SECTION 1

Key Regulatory Sources: CSBG & Uniform Guidance

Cost allocation in CSBG is governed by two primary regulatory sources: the CSBG itself and the Uniform Guidance at 2 CFR Part 200. Understanding both is essential for effective monitoring.



The CSBG Act: Key Points

Tripartite Board Structure

The board composition requirement is unique to the CSBG program and is included in the Compliance Supplement, which directs auditors to determine whether agencies are in compliance.

Administrative Cost Limitations

The CSBG imposes caps on administrative costs. Monitors must verify that costs classified as administrative do not exceed allowable thresholds.

Organizational Standards Relevance

CSBG organizational standards require sound financial management practices, directly connecting to cost allocation policies and documentation requirements.

Uniform Guidance: 2 CFR Part 200

Subpart E — Cost Principles governs what costs may be charged to federal grants. To be charged to the grant, costs must meet all four criteria:

1

Allowable

Permitted under Uniform Guidance cost principles

2

Allocable

Must benefit the program being charged

3

Reasonable

What a *prudent person* would pay for the same item

4

Consistent

Treated the same way across all funding sources

Key Definitions

Direct Costs

Costs that are **specifically identifiable** to one program. These can be charged directly to a single grant without allocation.

Indirect Costs

Shared organizational costs that **benefit multiple programs** and cannot be directly assigned to a single activity.

Cost Allocation

The **distribution of shared costs** across all benefiting activities using a logical, documented methodology.

📄 The distinction between direct and indirect costs is not always obvious. The same cost type can be direct in one context and indirect in another — what matters is whether it can be specifically identified to a single program.

❓ Can a cost be allowable but still improperly allocated?

Poll #3: Most Critical Principle

③ Which principle is MOST critical in cost allocation?

Reasonableness

The cost reflects what a prudent person would pay

Allocability

The cost genuinely benefits the program charged

Consistency

The same treatment is applied across all funding sources

Documentation

The methodology is written, supported, and reviewable

SECTION 2

Core Concepts of Cost Allocation

Sound cost allocation rests on five fundamental principles that apply to every methodology, regardless of the cost type or program involved.



The Five Fundamental Principles



Necessary

The cost must be required to carry out the program's objectives



Reasonable

Reflects what a prudent person would pay under similar circumstances



Allocable

Charged based on actual benefit received by the program



Consistently Treated

Applied the same way across all funding sources and time periods




Adequately Documented

Supported by written policies, worksheets, and records

Common Allocation Bases by Cost Type

The allocation basis must logically connect the cost to the programs that benefit. Common pairings include:

Cost Type	Common Allocation Basis
Rent / Utilities	Square footage
Administrative staff	Time and effort
IT services	Device count or users
Payroll processing	Number of employees
Insurance	Headcount or exposure basis

 The basis chosen must reflect actual benefit — not convenience or available funding.

Characteristics of Acceptable Methodologies

1

Logical

The basis for allocation makes intuitive sense given the nature of the cost

2

Defensible & Easy to Explain

A monitor, auditor, or board member can understand it without specialized knowledge

3

Consistently Applied

The same method is used period to period and across all grants

4

Supported by Documentation

Written policies, worksheets, and source records back up every allocation

5

Periodically Reviewed

Percentages and bases are updated when operations change

Common CSBG Shared Cost Areas

Executive Management

Leadership time benefiting multiple programs

Finance Department

Accounting, reporting, and grant management functions

HR Support

Recruitment, benefits administration, and compliance

Facilities

Rent, utilities, maintenance shared across programs

IT Systems

Hardware, software, and technical support

Reception / Front Desk

Administrative support serving the whole organization

Poll #4: Allocating Occupancy Costs

① Which allocation basis would generally be MOST appropriate for allocating occupancy costs?

Number of Grants

Divide equally among all active grants

Employee Salaries

Allocate proportional to payroll costs

Square Footage

Allocate based on physical space occupied

Program Budgets

Allocate proportional to total grant budgets



SECTION 3

Indirect Costs & Administrative Costs

One of the most common CSBG monitoring challenges is confusing administrative costs with indirect costs. While related, they are not the same. Indirect costs represent shared organizational expenses that benefit multiple programs, and how those costs are recovered.

Why This Matters: The Core Distinction

The Key Framing Statement

Administrative describes the *purpose* of the activity.

Indirect describes the *method used to allocate* the cost.

Many monitors assume all indirect costs are administrative — or that all administrative costs are indirect. **Both assumptions are incorrect.**

Two Different Lenses

Uniform Guidance Asks

How do we **allocate** this cost between funding sources?

CSBG Asks

What **type of activity** does this cost support — administrative or programmatic?

A cost may be direct and administrative, indirect and programmatic, or both indirect and administrative.

Admin vs. Indirect: Defining the Two Concepts



Administrative Costs

Relate to **management, oversight, governance, and general organizational operations.**

- Executive leadership, finance, HR, payroll
- Board activities, agency-wide planning
- General compliance oversight

Key question: Is this activity supporting organizational management or delivering services to clients?



Indirect Costs

Shared costs that benefit multiple programs and cannot easily be assigned to a single funding source.

- Shared rent, utilities, IT systems
- Multi-program intake staff
- Central accounting systems

Key question: Is the cost identifiable to one program or shared across programs?

The Overlap: Three Possible Combinations

Administrative and indirect costs are **overlapping but separate concepts**. Indirect cost status does **not** determine whether a cost counts toward the CSBG administrative cap.

ADMIN & INDIRECT

e.g., Executive Director salary in indirect pool

PROGRAM & INDIRECT

e.g., Shared intake worker across programs

PROGRAM & DIRECT

e.g., Case manager serving CSBG clients

Side-by-Side Matrix: CAA Cost Examples

CAA Cost Example	Administrative?	Indirect?	Why
Executive Director salary via indirect pool	Yes	Yes	Agency management shared across programs
Finance Director overseeing all grants	Yes	Yes	General administration benefiting multiple programs
HR department staff	Yes	Yes	Administrative support shared agency-wide
<hr/>			
Weatherization program manager	Usually No	No	Direct program operations
Case manager serving CSBG clients	No	No	Direct client service
Shared intake worker (multiple programs)	No	Yes	Programmatic activity shared across grants
Shared case management software	No	Yes	Program support allocated agency-wide
Board meeting expenses	Yes	Usually Yes	Governance activity
Bus passes for clients	No	No	Direct client benefit

Monitoring Questions & Common Mistakes

Key Monitoring Questions

01

What activity is being performed? Does it support management or direct services?

02

Is the cost shared across multiple programs? How is it allocated?

03

Is there an approved indirect cost rate or cost allocation plan?

04

Does the allocation methodology appear reasonable and consistent?

Common Mistakes & Corrections

~~All indirect costs are administrative.~~ **False.** Some indirect costs support program services.

~~The indirect cost rate equals the CSBG administrative cap.~~ **False.** Only the administrative portion counts.

~~Program supervision is always administrative.~~ **Usually false.** It is often programmatic.

Key Takeaways

Function vs. Allocation

Administrative costs describe the **purpose** of the activity. Indirect costs describe **how** costs are allocated across programs.

Four Possibilities

A cost can be administrative, indirect, **both**, or **neither**. These categories are not mutually exclusive.

The Cap Rule

Not all indirect costs count toward the CSBG administrative cap — only those that are also administrative in nature.

Dual Evaluation

Monitors must assess both the **nature of the activity** and the **allocation methodology** independently.

The key to accurate CSBG monitoring is separating **what the cost does** from **how the cost is charged**.

Types of Indirect Cost Rates

Federally Negotiated Rate

Established through negotiation with the agency's cognizant federal agency. Provides the strongest documentation and is binding across all federal awards.

De Minimis Rate (15%)

Available to organizations that do not have a negotiated rate. Applied to modified total direct costs (MTDC). Simple to apply but may not reflect actual indirect costs.

State-Approved Methodologies

Some states establish their own approved indirect cost methodologies for CSBG subrecipients. Monitors must understand their state's specific requirements.

CSBG Administrative Cost Considerations

Administrative Cap Implications


The CSBG Act limits administrative costs. Monitors must verify that costs classified as administrative — including indirect costs — do not exceed the allowable cap.

State-Specific Requirements

States may impose additional restrictions or definitions beyond federal requirements. Know your state's rules.

Admin vs. Programmatic Costs

The distinction between administrative and programmatic costs is not always clear-cut. Key question: Does the cost directly support service delivery, or does it support the organization's overall management?

 Misclassifying programmatic costs as administrative — or vice versa — is a common finding that can affect compliance with the administrative cap.

Monitoring Questions for Indirect Costs

State monitors should ask the following questions when reviewing indirect cost practices:

→ **Is there an approved indirect cost rate?**

Federally negotiated, de minimis, or state-approved — verify the type and approval status

→ **Is the allocation methodology documented?**

Written cost allocation plan or indirect cost rate proposal should be on file

→ **Is it consistently applied?**

The same method must be used across all federal awards in the same fiscal year

→ **Are costs double charged?**

Costs in the indirect pool must not also be charged directly to any grant

→ **Are allocations updated periodically?**

Percentages should reflect current operations, not outdated assumptions

Common Risk Areas in Indirect Costs

Unsupported, Arbitrary Percentages

Allocation percentages with no documented basis — no time studies, no space measurements, no logical rationale

Outdated Allocation Percentages

Percentages that have not been updated despite significant changes in program mix, staffing, or operations

Funding-Based Allocations

Shared costs charged based on available funding rather than actual use — a clear Uniform Guidance violation

Inconsistent Treatment Across Grants

Different methods applied to different grants in the same fiscal year without justification

Poll #5: Most Common Issue You Encounter

What is the most common indirect cost issue you encounter during monitoring?

LACK OF DOCUMENTATION



NO WRITTEN PLAN.
NO SUPPORTING RECORDS.

INCONSISTENT APPLICATION



DIFFERENT METHODS
FOR DIFFERENT GRANTS.

UNSUPPORTED TIME ALLOCATIONS



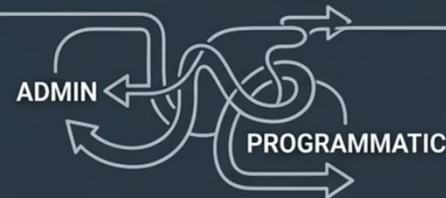
NO TIME STUDIES.
NO RECORDS KEPT.

DOUBLE CHARGING

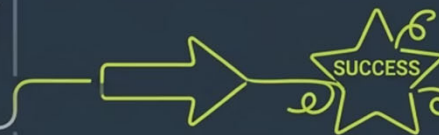


COSTS IN BOTH INDIRECT
POOL AND DIRECT CHARGES.

MISCLASSIFICATION OF ADMIN COSTS



ADMIN VS. PROGRAMMATIC
CONFUSION.



ADDRESS THE ISSUES. REDUCE RISK.

Ensure full compliance with
all grant requirements.

SECTION 4

Monitoring Focus Areas & Common Findings



Effective monitoring goes beyond checking boxes. It requires reviewing policies, testing financial records, and verifying that documented methodologies are actually being followed in practice.

What Monitors Should Review: Policies & Procedures

Written Allocation Plan

A formal cost allocation plan describing the methodology, bases used, and how costs are distributed across programs. Should be board-approved and current.

Indirect Cost Documentation

Rate agreement, de minimis election, or state-approved methodology on file. Must be applicable to the period being monitored.

Approval Processes

Evidence that allocation methodologies have been reviewed and approved by appropriate leadership — finance committee, board, or executive director.

What Monitors Should Review: Financial Documentation



General Ledger Detail

Transaction-level data showing how costs are coded and distributed across programs and cost centers



Allocation Worksheets

Supporting calculations showing how shared costs were divided — the math behind the percentages



Payroll Records

Payroll registers and distribution reports showing how personnel costs are charged across programs



Time & Effort Documentation

Timesheets, activity reports, or semi-annual certifications for split-funded employees

Consistency Testing

Reviewing a single month's allocation is not sufficient. Monitors should test consistency across time and across grants:

Compare Multiple Months

Pull allocation worksheets from at least three different months. Do the percentages change? If so, is there documentation explaining why?

Compare Across Grants

The same shared cost should be allocated using the same method regardless of which grant is being charged. Inconsistency is a red flag.

Verify the Method Is Actually Followed

The written plan may say one thing while the general ledger shows another. Trace actual transactions back to the documented methodology.

Red Flags in Cost Allocation

Rounded Percentages

Allocations of exactly 50/50 or 33/33/34 with no supporting calculation suggest the basis was not derived from actual data

Percentages That Never Change

Identical allocations year after year despite changes in staffing, program mix, or space usage

No Reconciliation or Review Process

No evidence that allocations are reviewed, reconciled, or adjusted during the year

No Support for Percentages

Cannot explain how the percentages were derived — no time studies, no space measurements, no calculation

Large Year-End Adjustments

Significant adjustments at fiscal year-end may indicate allocations were not properly maintained throughout the year

Organizational Standards Connection

Financial Operations

CSBG organizational standards require agencies to maintain written financial management policies. A cost allocation plan is a core component of sound financial operations.

Internal Controls

Proper allocation controls — segregation of duties, supervisory review, reconciliation — are part of the internal control framework monitors assess.

Board Oversight

The tripartite board is responsible for financial oversight. Monitors should verify the board is actively involved in reviewing current financials of the agency.

❓ **Group Discussion:** What documentation would make you most comfortable approving a shared cost allocation?

Key Takeaway

Effective monitoring of cost allocation is not about finding perfect methodologies — it is about ensuring agencies use reasonable, consistent, and supportable approaches that appropriately distribute costs across benefiting programs.



Cost Allocation Should Be...

Reasonable

Reflects what a prudent person would consider appropriate for the nature and scope of the program

Documented

Supported by a written plan, worksheets, time studies, and source records that can withstand audit scrutiny

Consistent

Applied the same way across all grants, all periods, and all cost types — no special treatment for any single funder

Defensible

Easy to explain to a monitor, auditor, or board member without specialized accounting knowledge

What Monitors Should Focus On

Does the allocation method make sense?

Is there a logical connection between the basis chosen and the cost being allocated? Would a reasonable person agree?

Is the method followed consistently?

Does the general ledger match the written plan? Are the same methods applied month to month and grant to grant?


Does documentation support the method?

Is there a written plan? Are worksheets current? Is there evidence of how percentages were derived?

Do costs follow actual program benefit?

Are programs charged in proportion to the benefit they actually receive — not based on available funding or convenience?

Poll #6: Post-Session Preparedness

 After today's session, how prepared do you feel to review CSBG cost allocation practices?

Very Prepared

Ready to apply these concepts in my next monitoring visit

More Prepared

Gained new knowledge and tools I can use going forward

About the Same

Confirmed what I already knew but need more practice

Still Uncertain

Have remaining questions or need additional training

Poll #7: Additional Training Needs

 Which topic would you like additional training on?



Time & Effort Reporting

Documentation requirements for split-funded employees under Uniform Guidance



Indirect Costs

Negotiated rates, de minimis elections, and indirect cost pool composition



Administrative Caps

CSBG administrative cost limitations and classification of admin vs. programmatic costs



Monitoring Techniques

Practical tools and approaches for conducting effective cost allocation reviews



Cost Allocation Plans

How to evaluate, develop, and improve written cost allocation plans

The Four Questions Every Monitor Should Ask



Does it make sense?

Is there a logical, intuitive connection between the allocation basis and the cost being distributed?



Is it documented?

Can the agency produce a written plan, worksheets, and source records that support the methodology?



Is it consistent?

Is the same method applied across all grants, all periods, and all cost types without exception?



Does it follow benefit?

Are programs charged in proportion to the actual benefit they receive — not based on budget size or available funding?

Thank You!

Reasonable

Prudent person standard applied to every cost

Documented

Written plan, worksheets, and source records on file

Consistent

Same method across all grants and all periods

Defensible

Easy to explain and supported by actual benefit

[Cost Allocation in CSBG: Monitoring for Compliance, Consistency, and Practical Application](#)