

# Cost Allocation Case Studies

Real-world scenarios for nonprofit finance managers and compliance officers navigating federal grant accounting under 2 CFR 200.

CSBG COMPLIANCE SERIES



# Nine Scenarios. One Core Principle.

Every case study in this series returns to the same foundational question:

Did the cost actually benefit the program being charged — and is that benefit documented, reasonable, and recovered only once?

## **Allocability**

Costs must benefit the program charged

## **Consistency**

Methodology must be uniformly applied

## **Documentation**

Rationale must be recorded and defensible

## **No Double Recovery**

Each cost recovered once — never twice

CASE STUDY #1

# Finance Director: Split Between Direct and Indirect Work



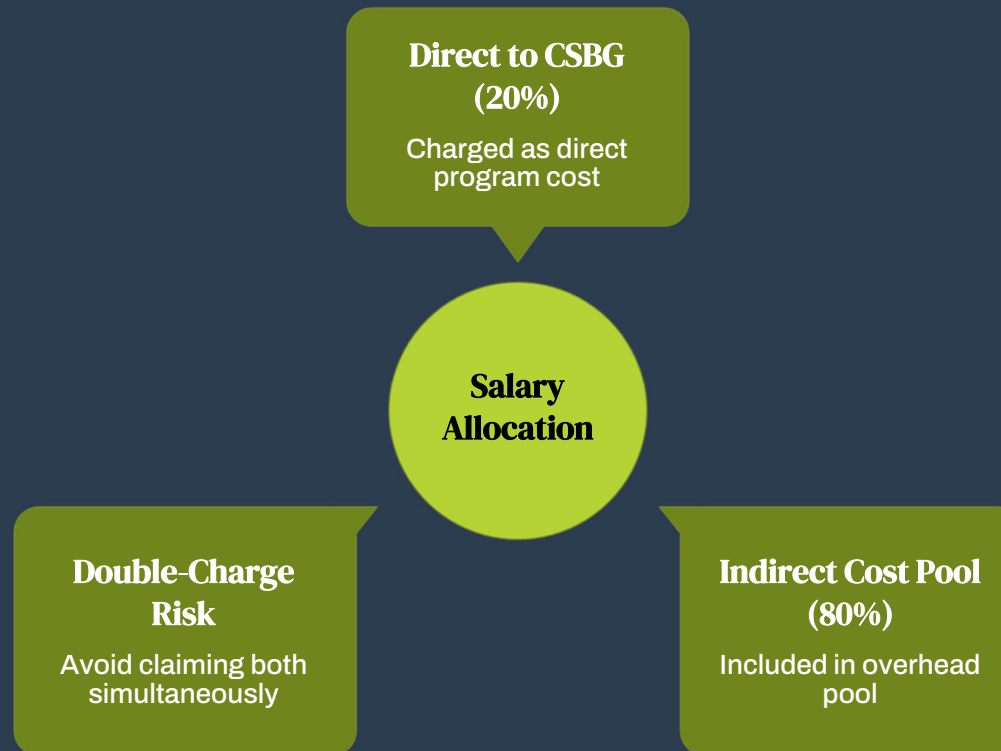
## The Scenario

A Finance Director divides her time between two types of work:

- 20% — CSBG-specific tasks: financial reports, monitoring visit participation, CSBG budget revisions
- 80% — General organizational finance and administration

**i** The 20% direct-charged portion must be **excluded** from the indirect cost pool to avoid double recovery.

## How the Salary Should Be Charged



Under 2 CFR 200.403 and 200.412–414, the key question is whether the cost has been treated consistently and recovered only once. A single employee may have both direct and indirect duties but the methodology must be documented, reasonable, and consistently applied.

## Discussion Points & Corrective Action

### Key Discussion Questions

- Can one employee have both direct and indirect duties?
- What documentation supports the time split?
- How does the agency prevent recovering the same cost twice?

### Review Payroll

Audit indirect cost pool calculations for duplicated salary costs

### Remove the Overlap

Exclude directly charged amounts from the indirect pool

### Maintain Documentation

Keep timesheets or written certifications supporting the split



#### CASE STUDY #2

## The One-Off Invoice

A \$2,500 office supply purchase is charged 100% to CSBG — not because CSBG staff used all the supplies, but because the grant had available funding and supplies were "mostly" used by CSBG staff.

⚠ The agency did not follow its approved cost allocation methodology, which required FTE-based allocation.

CASE STUDY #2 — TEACHING POINTS

## The Right Question to Ask

"If I removed the grant name from the invoice, how would you determine which programs should pay for it?"

### Good Answer

"Based on who benefits from the cost" — this reflects proper allocability analysis.

### Red Flag Answer

"Based on who has money left in their budget" — this is a major compliance warning sign.

Deviating from an approved allocation plan is only permissible if the alternative is reasonable, better reflects actual benefit, is documented, and consistently supported.

# Fixing a Misallocated Supply Purchase

## Two Acceptable Paths Forward

### Option A


Reallocate the cost according to the approved FTE-based methodology and document actual benefit received

### Option B

Revise the cost allocation plan if the current FTE methodology no longer reflects actual usage patterns

## Key Discussion Questions

- Can the agency deviate from its allocation plan?
- Is "available funding" an acceptable basis for charging a grant?
- How would the agency determine which programs actually benefited?

 Whatever path is chosen, the rationale must be **documented** and applied **consistently**.

CASE STUDY #3

# Administrative Assistant Charged 100% to One Grant

An Administrative Assistant answers phones, processes mail, schedules meetings, and supports all programs — yet the entire salary is charged directly to CSBG.

⚠ The position appears to benefit multiple programs but is treated as a direct cost to only one grant.



# When Is an Admin Salary Direct vs. Indirect?

## The Core Rule

Administrative salaries are generally **indirect costs** unless they can be specifically identified with a particular program or grant activity. Charging the full salary of a multi-program support employee to a single grant creates an allocability problem.

## Discussion Questions

- Does the employee perform work specifically benefiting CSBG only?
- Is there documentation showing grant-specific activities?

01

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## Review Actual Duties

Assess whether work specifically benefits CSBG or supports multiple programs

02

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## Choose Correct Treatment

Move salary to indirect pool, allocate among benefiting programs, or document CSBG-specific activities

03

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## Document the Rationale

Retain evidence supporting whichever methodology is used going forward


## CASE STUDY #4

# Allocation Plan Not Updated for New Program



## The Scenario

The agency added a **Weatherization program** six months ago but continues using a cost allocation plan that only distributes shared costs among Head Start, CSBG, and LIHEAP.

 The allocation plan no longer reflects current organizational operations.

## Shared Costs That May Now Benefit Weatherization

- Occupancy and utilities
- Administrative salaries and HR support
- Office supplies, insurance, shared equipment

# Keeping the Allocation Plan Current

Allocation methodologies must be reviewed and updated as organizational activities change. When a new program is added, evaluate whether it benefits from any shared cost pools.

1

## Revise the Plan

Add Weatherization to appropriate allocation bases

2

## Recalculate

Adjust prior allocations if the new program received unreimbursed benefit

3

## Set Effective Date

Document when the revised methodology takes effect

4

## Review Regularly

Build allocation plan review into annual financial processes

CASE STUDY #5

## "But It Was Budgeted"

The approved CSBG budget includes \$15,000 for staff training. Staff from **multiple programs** attend a leadership conference. The entire cost is charged to CSBG — because the training line item exists in the CSBG budget.

⚠ The agency is charging costs based on budget availability rather than actual benefit received.



CASE STUDY #5 — TEACHING POINTS

# A Budget Is Permission to Spend — Not Justification to Charge

"The budget is permission to spend, not justification for charging."

## A Budget Authorizes

Spending up to a stated amount for an approved purpose

## A Budget Does NOT

Make unallowable costs allowable, override allocation rules, or eliminate the need to document benefit received

## Costs Must Still Be

Necessary, reasonable, allocable, and consistently treated — regardless of budget approval


**Corrective Action:** Determine which programs benefited from the conference and allocate the training cost accordingly.

## CASE STUDY #6

# Budgeted Salary No Longer Matches Actual Work

## The Scenario

A Program Coordinator's full salary is budgeted to CSBG. Six months in, the employee begins spending **40% of their time** supporting a new grant. Payroll continues charging 100% to CSBG because "that's how it was budgeted."

 Actual activity no longer matches the approved budget allocation.

## The Core Principle

Budgets are estimates. **Actual charges must reflect actual work performed.**

If the budget says 100% CSBG but the employee works 60% on CSBG and 40% on another grant, charges must follow the **work performed** — not the original budget.

# Realigning Payroll to Reflect Reality

1

## Adjust Payroll Allocations

Update charges to reflect the employee's current 60/40 activity split immediately

2

## Document the Methodology

Record timesheets, written certifications, or supervisor attestations supporting the new allocation

3

## Review Prior Charges

Determine whether payroll charges from prior months need to be corrected or reallocated

4

## Update the Budget


Submit a budget modification if the change in duties is expected to continue going forward

# The Vacant Position Problem

## The Scenario

The allocation plan distributes occupancy costs based on staff headcount. One program has **three vacant positions for six months**, but allocations continue as if all positions are filled.



 The allocation basis may no longer reasonably reflect actual benefit received.

## Key Discussion Questions

- Should vacant positions count in the headcount allocation?
- Did the vacant positions still occupy dedicated office space?
- Would another basis better reflect actual usage?

CASE STUDY #7 — TEACHING POINTS & CORRECTIVE ACTION

# Vacancies Don't Always Require a Change — But They Require Analysis

## Space Still Assigned

If vacant positions retained dedicated office space, some occupancy allocation may still be reasonable and defensible

## Space Reassigned

If the space was repurposed for another program, the allocation basis should be adjusted to reflect that change

## Significant Distortion

If the vacancy significantly changes benefit received, continuing the old allocation may misrepresent actual costs

**Corrective Action:** Review whether vacant positions continued to benefit from occupancy costs, adjust the allocation base if needed, document the rationale, and recalculate if the original basis no longer reflects actual benefit.

CASE STUDY #8

# Related-Party Transactions

The agency leases office space from a company owned by a board member. Rent is allocated to CSBG without documentation supporting the reasonableness of the rate charged.

- ⊗ Related-party transactions receive heightened scrutiny due to potential conflicts of interest, excessive costs, or lack of arm's-length bargaining.



# What Auditors and Monitors Will Ask

## The Central Question

Would the agency have paid the same amount in an arm's-length transaction with an unrelated third party?

Related-party costs must be supported by documentation showing the cost is reasonable, necessary, allocable, and properly approved by **disinterested board members**.

01

## Obtain Market Comparables

Document local rental rates to demonstrate the lease is at or below fair market value

02

## Apply Conflict-of Interest Policy

Review the transaction under the agency's adopted policy; ensure the board member recused

03

## Document Board Approval

Record the vote by disinterested board members in official meeting minutes

04

## Adjust If Unsupported

Reallocate or reduce costs if the rate cannot be adequately supported by documentation

CASE STUDY #9

# CSBG Absorbing Disallowed Costs From Another Grant

Another grant disallows certain costs during monitoring. The agency transfers those costs to CSBG because the expenses were described as "legitimate agency costs."

- ⊗ A cost disallowed under one award cannot simply be transferred to another award. It must independently meet CSBG's allowability requirements.



# Why Cost Transfers Require Independent Justification

## Potential Consequences

### Questioned Costs

Transferred costs may be questioned and require repayment

### Increased Scrutiny

Future monitoring visits may expand in scope

### Internal Control Concerns

Raises questions about fiscal oversight and grant management practices

## Corrective Action Steps

- Determine why the original cost was disallowed
- Evaluate whether CSBG actually benefited from the cost
- Confirm the cost is allowable under CSBG requirements
- Reverse the transfer if CSBG did not benefit or cost is unallowable
- Strengthen review procedures for all future cost transfers
- Train fiscal staff on allocability and cost transfer rules

# Key Takeaways Across All Nine Case Studies



## Benefit Drives Charging

Every cost must be charged based on actual benefit received — not budget availability, convenience, or grant balances



## Document Everything

Methodology, rationale, time splits, and approvals must be documented contemporaneously and retained



## Keep Plans Current

Cost allocation plans must be updated whenever organizational structure or program portfolio changes



## No Double Recovery

A cost charged directly to a grant must be excluded from the indirect cost pool for the same period