

“Is Your Organization Healthy?”: Cost Allocation Methodology, Timesheets and Invoices

Marissa M. Tirona

Projects Director

April 2, 2009

Learning Objectives

- To develop and implement a comprehensive allocation process.
- To identify the hallmarks of an effective timekeeping system.
- To understand the importance of accurate, well-supported invoices.

Why allocate expenses?

- **Business Analysis**
- **Cost Recovery**
- **It's Easier!**

The Regulatory Environment - Costs Must Be

- Reasonable: Ordinary and necessary to accomplish the purpose of the contract and comparable to market prices.
- Allowable: As per the circular. Those costs for fundraising activities are not allowed by the government.
- Allocable: They must benefit the cost objective.
- Consistently applied: You cannot switch methods to generate more revenue or treat one cost as direct for one contract and indirect for another government contract.
- Documented: The methodology for allocating costs should be documented. This includes time studies and functional time sheets.

Standard Monitoring Form –1B

1B. Cost Allocation Procedures

- a. Process for cost allocation procedures and plan for shared costs is documented in a written narrative or in the footnotes of the current approved agency-wide budget
- b. Process for allocating shared program costs is consistent and reasonable
- c. Process for cost allocation procedures and plan for indirect costs is documented in a written narrative or in the footnotes of the current approved agency-wide budget
- d. Process for allocating indirect costs is consistent and reasonable

The Allocation Process

- Categorize expenses
- Choose an allocation basis
- Allocate shared costs
- Allocate administrative/overhead costs
- Calculate indirect rate

Cost Categorization: Language Matters

Cost Categorization	Possible Audience
Program vs. Supporting	IRS / Audited Financials Watchdog Agencies Donors
Specific vs. Shared	Internal management Auditors
Direct vs. Indirect	Funders: Foundations and Government contracts

Definitions

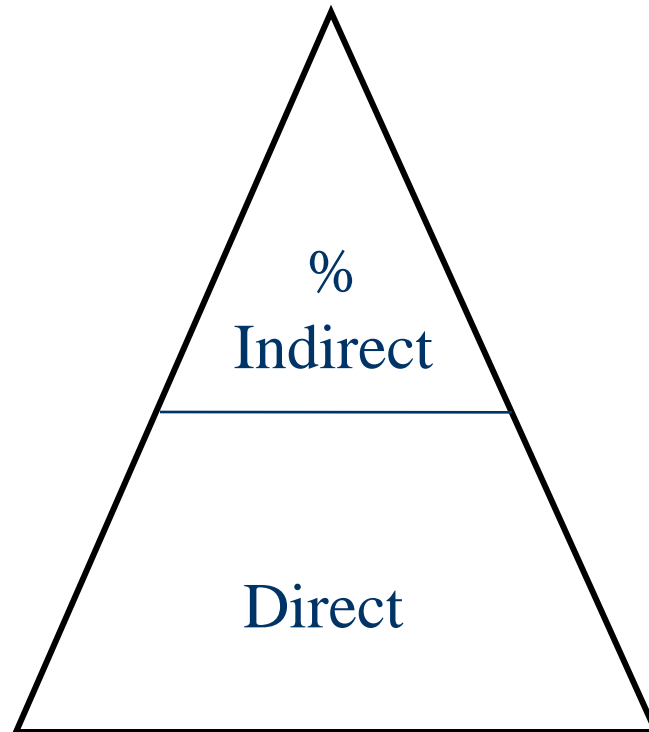
- **Direct:** Program staff salaries, materials and supplies for programs, Contractors' fees
- **Indirect:** Portion of Executive Director's salary, Finance staff salary
- **Shared:** Office manager's salary, rent, telephone, postage



Know Your Full Program Costs



Full Program Costs



Funder's Guidelines

Possible Allocation Methodologies

- A percentage determined by dividing the **number of FTEs** of each activity by the total number of FTEs from all the activities (excluding any whose salaries are treated as common costs).
- A percentage determined by dividing the amount of the **payroll expenses** of each activity by the payroll expenses of all the activities (excluding common).
- A percentage determined by dividing the **square footage** used by each activity by the total agency square footage.
- A percentage determined by dividing the amount of the **specific expenses** of each activity by the total specific expenses of the organization.

Calculating Indirect Rate

Allocated Administrative Costs + Allocated Shared Costs



Indirect Rate

Specific Costs



SAMPLE UNRESTRICTED BUDGET WITH SHARED COSTS ALLOCATED							
2008-09 Budget: First Draft (summarized)							
As for May 29, 2008							
	Program Activities		Supporting Activities				
	Shelter Services	Support Groups	Admin-istration	Fund-raising	Shared Costs	Total 2008-09	Total 2007-08
Contributions	-	-	-	80,000	-	80,000	58,000
Fundraising events - net	-	-	-	135,000	-	135,000	125,000
Foundation grants	-	-	-	125,000	-	125,000	115,000
Total support	-	-	-	340,000	-	340,000	298,000
Government contracts	815,009	-	-	-	-	815,009	770,467
Interest and dividends	-	-	10,000	-	-	10,000	5,750
Unrealized gain (loss) on investments	-	-	-	-	-	-	-
Total revenue	815,009	-	10,000	-	-	825,009	776,217
							-
Net assets released from restriction	-	445,000		5,000	-	450,000	453,000
Total income	815,009	445,000	10,000	345,000	-	1,615,009	1,527,217
Personnel expenses	329,852	214,881	117,365	127,339	179,161	968,598	973,204
Non-personnel expenses	416,750	129,300	28,100	44,750	224,113	843,013	505,507
Total specific costs	746,602	344,181	145,465	172,089	403,274	1,811,611	1,478,711
See 1 Note Below							-
Allocation of shared costs	181,473	125,015	44,360	52,426	(403,274)	-	-
Expenses before overhead/indirect	928,075	469,196	189,825	224,514	-	1,811,611	1,478,711
							-
Change before overhead/indirect	(113,066)	(24,196)	(179,825)	120,486	-	(196,602)	48,507
% of direct costs See Note 2 Below	57%	29%	-100%	14%	0%	(0)	-
Allocation of indirect costs	108,200	55,049	(189,825)	26,576	-	(0)	-
Total expenses	1,036,275	524,245	-	251,090	-	1,811,610	1,478,710
Change in net assets	(221,266)	(79,245)	10,000	93,910	-	(196,601)	48,507

Cost Allocation Plan: A Sample

- Organization uses a bottom-line allocation for shared costs
- Shared cost allocation methodology: $\frac{\# \text{ of Department FTEs}}{\text{Total \# of FTEs in Organization}}$
- Indirect cost allocation methodology: $\frac{\text{Allocated Administrative costs} + \text{Allocated Shared Costs}}{\text{Total Specific Costs}}$

Contract Budgeting: Key Considerations

- Researching funder guidelines
- Kind of budget
- Allowable costs
- Direct and indirect

Common Cost Allocation Challenges

- *“Um, we don’t have a cost allocation plan.”*
- *“Aren’t we supposed to allocate all of the executive director’s salary to overhead?”*
- *“We have to use different allocation methodologies – we have lots of different types of expenses. There is no ‘one-size-fits-all’ methodology!”*
- *“Different funders have different limits on the amount of indirect or shared costs that can be allocated to grants; what are we supposed to do?”*

A Slight Detour - Source Budget v. Activity Budget

A Source Budget Should:

- Reflect the program reality (be based on the most realistic program plan and budget)
- Adhere to all proposal or grant agreement guidelines
- Support the proposal narrative by explaining the costs of the proposed project
- Enable management to monitor the use of restricted funds
- Not be mistaken for an activity budget—it only represents a part of the activity



A Slight Detour - Source Budget v. Activity Budget

An Activity Budget Should:

- Reflect actual program costs or our best projection of what the true costs will be
- Reflect real program services and organizational structures
- Match program costs with program income to give a realistic bottom line
- Enable management to plan, monitor, and adjust program execution



SAMPLE PROGRAM BY SOURCE BUDGET SHOWING WHO IS FUNDING BUDGET

Shelter Program							
	Program					Funding	(Over)
	Total	DCYF	First 5	Funder C	Funder D	Total	Under
							Funded
Salaries	295,920	65,000	105,000	-	37,500	207,500	88,420
Payroll Taxes	30,332	6,500	10,500		3,750	20,750	9,582
Training	3,600	1,800	1,800	-		3,600	-
Personnel expense	329,852	73,300	117,300	-	41,250	231,850	98,002
Clients, direct assistance	375,000	15,000	25,000	180,259	65,000	285,259	89,741
Conferences & Meetings (see note	1,000		1,000	-	4,250	5,250	(4,250)
Dues and Subscriptions	1,000	250	250	-	500	1,000	-
Other Professional Fees	20,000	-	15,000	-		15,000	5,000
Printing & Copying	1,000	250	250		500	1,000	-
Supplies	15,000	5,000	8,000	-	2,000	15,000	-
Travel	3,750	1,250	1,250	-	1,250	3,750	-
Non-personnel expense	416,750	21,750	50,750	180,259	73,500	326,259	90,491
Liability Insurance	12,000	3,000	3,000	3,000	3,000	12,000	-
Occupancy	88,000	20,000	20,000	25,000	23,000	88,000	-
Utilities	22,000	5,000	5,000	5,000	5,000	20,000	2,000
Depreciation	10,000	2,500	2,500	2,500	2,500	10,000	-
Other shared costs	49,473	10,000	10,000	10,000	10,000	40,000	9,473
Shared Costs	181,473	40,500	40,500	45,500	43,500	170,000	11,473
Overhead/aka Indirect Costs	108,200	14,950	21,950	25,000	25,000	86,900	21,300
Total expenses	1,036,275	150,500	230,500	250,759	183,250	815,009	221,266

Standard Monitoring Form – 1H

1H. Payroll

- a. State (DE6) and federal (941) payroll tax returns were filed by the end of the month following the end of the quarter for monitoring months under review
- b. Employees paid with City funds listed on invoices checked in Section 1G above are listed on the DE6 for the quarter(s) that includes the monitoring months under review
- c. Payroll taxes due were actually paid

Timesheets:

- d. If employee time is paid by more than one source, it is recorded by funding source or program on timesheets
- e. Employee & supervisor signatures on timesheets in ink
- f. All changes to timesheet are initialed by supervisor in ink
- g. Employees and hours charged to City contracts agree to timesheets and to payroll journals

Timesheets: What to Look Out For

- Time spent on activity is accurately reflected, including breaks
- Activity is clearly defined
- Time is recorded by program or funding source
- Employee's and supervisor's signatures
- Any changes are initialed by supervisor

Different ways to track time



- Daily timesheets
- Weekly timesheets
- Time studies

Standard Monitoring Form – 1G

1G. Invoices

Expenses:

- a. Expenses tested on invoices have supporting documentation: credit card charges and/or petty cash expenditures are all documented with an original receipt and reasonably tie to the cost allocation plan.
- b. Contractor follows its policies for writing checks, credit card use, petty cash use, and/or reimbursement for expenses tested on invoices
- c. Tested expenses on invoices appear to be reasonably associated with the program budget

If Units of service contract (usually DPH contracts only):

- d. Units of service provided are documented and agree with invoices

If payments to subcontractors are included on invoices:

- e. Subcontractor authorized by contract
- f. Contractor paid its subcontractors' invoices per the schedule established in the subcontracting agreement and/or prior to receiving City reimbursement for the services delivered
- g. Subcontractor invoices show basis for work billed as performed (units of service, hours, reimbursable costs)

Supporting Documentation for Invoices

- Payroll register for the months selected
- Paystubs
- Time sheets for the staff of interest to verify time worked on the program
- Fringe benefit documentation (e.g., bills from Kaiser for health benefits plan)
- Operating expenses (e.g., items that are either integral to the program, like participant stipends, subcontractor expenses, or any expense that is over \$1,000 in a particular month)
- Bank statements
- Cancelled checks
- Petty cash vouchers
- Credit card statements
- Itemized bill
- Units of service support (*usually DPH contracts only*) e.g., sign-in sheets, intake forms, etc.

Other Resources . . .

- **Controller's website:**
http://www.sfgov.org/site/controller_page.asp?id=30547
- **CompassPoint's Nonprofit Genie:**
<http://www.compasspoint.org/askgenie/index.php>
- **Nonprofit Finance Fund:**
<http://www.nonprofitfinancefund.org/details.php?autoID=82>
- *"Financial Leadership for Nonprofit Executives"* by Jeanne Bell and Elizabeth Schaffer

Developing Financial Leadership in Your Organization

- Beyond mission vs. money thinking
- Cultivate board and staff financial leadership
- View the nonprofit as an *interdependent* portfolio of activities (dual bottom-line thinking)
- Recognize the relationship between strong infrastructure and strong outcomes
- Set a tone of financial accountability and transparency

Contact Information

Marissa Tirona, Projects Director
CompassPoint Nonprofit Services

415.541.9000

marissat@compasspoint.org

www.compasspoint.org