

### *Cost Allocation Plan*

The DHHS cost allocation plan is governed by the Code of Federal Regulation Part 200—Uniform Administrative Requirements, Cost Principles, And Audit Requirements for Federal Awards and its companion guide ASMB C-10 establish principles for determining the allowable costs incurred by the department that can be attributed to these programs. The principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of federal participation in the financing of a particular program or project. The principles are designed so that federal awards bear their fair share of cost recognized under these principles except where restricted or prohibited by law. 2 CFR §200, and ASMB C-10, establish uniform principles for distributing the costs of grants, contracts, and other programs and are the basis for the development of cost allocation plans and indirect cost rate proposals.

Applications for federal funds often involve a request for reimbursement of both direct and indirect costs. Indirect costs are costs that are not readily identifiable with the activities of the grant or contract but are nevertheless incurred as result of the activities performed using these funds. Accounting, payroll, personnel, budgeting, and purchasing are all examples of departments that more often than not benefit several other departments and programs and for which costs should be attributed through an indirect means of allocation.

A CAP is required in order to provide a process for identifying and assigning all costs incurred by an agency, in this case, DHHS, to benefiting activities or cost centers. CAPs are organized by department functions. The primary goal 2 CFR §200 is to provide uniform cost principles to establish which costs of a state, or local agency or program should be borne in part or in full by the federal government. 2 CFR §200 contains revised sections on determining allowable costs and a revised section on public assistance cost allocation plans. These sections contain instruction on how to determine the costs and beneficiaries accessing federal dollars, and to track all administrative costs of running all programs, however they may be funded.

All single source agencies must submit their CAP to a designated cognizant agency for approval. The cognizant agency, which is responsible for the review and approval of the plan, is generally the federal agency providing the greatest dollar support subject to indirect cost rates, in this case, the Division of Cost Allocation (DCA) at the Department of Health and Human Services (DHHS).

The CAP was developed by DHHS and PCG. PCG reviewed DHHS' existing cost allocation processes and conducted extensive interviews with DHHS staff. PCG then worked with DHHS to identify all costs incurred by the Department and modified its software to upload and modify DHHS cost data and allocate all costs to DHHS programmatic areas, called final receivers. The DHHS CAP is a "full" CAP, including different funds and Federal dollars. DHHS has signed user agreements with PCG that prohibit DHHS from providing the software to any other parties or using it to create cost allocation plans for any other agencies.

#### ***Four-Stepdown Method***

The CAP system uses what is called the "four-stepdown method" to allocate costs. In this method, each stepdown is performed at once for all accounts, taking full advantage of the relational database querying abilities in Microsoft Access. The four-stepdown method allocates costs from each account by its designated statistic to receiving accounts through a series of four identical iterations. For example, in the first stepdown, only initial accounts allocate costs since all other accounts have no cost at this point. To determine the allocations in the second stepdown, the system needs to determine how much cost came into each account from the first allocation, the system then allocates the revised amount to the proper accounts based on the allocation method. Recalculation of the allocation percentages is not necessary because all costs are given to the appropriate accounts, regardless of account number. Identical procedures determine the amount of cost to be allocated for subsequent allocations. Additional amounts will be allocated to final receivers on each allocation.

Even after four allocations, there will still be a small amount of cost left over in the non-final accounts. After the fourth allocation, all of the cost that would be given to non-final accounts is placed in a residual table. These residual costs then get redistributed according to the current distribution of costs in each final account (i.e., total cost) where multiple stepdowns occurred (costs allocated straight to a final receiver from an initial account will not pick up overhead. For example, if a final account contains 10 percent of all the costs present in all final accounts put together, it will then receive a 10 percent share of the residual costs. This process allocates all of the remaining costs so that by the end of all the allocations, all of the costs that begin in the system end up in final accounts. The reports refer to these residual costs as the "final allocation".