

COST ALLOCATION POLICY

AGENCY

Indirect costs are costs for supportive activities which are necessary to maintain the direct effort involved in providing services. The County will participate in indirect costs if the agency has a cost allocation plan and indirect costs are an approved part of the contract.

There is no general rule for classifying costs as either direct or indirect. A cost may be direct with respect to a specific service or organization, but indirect with respect to another. Once classified, each item of cost shall be treated consistently either as a direct or indirect cost.

The overall objective of the allocation process is to distribute the indirect costs of the agency to its various services or cost categories in reasonable proportion with the benefits provided to these services or cost categories.

The cost allocation plan is the document for identifying, accumulating, and distributing cost to consuming levels or cost categories within the agency and for identifying the allocation methods used. The agency shall maintain a complete file regarding the cost allocation plan and supporting documentation.

The apportionment of indirect costs may be treated in two ways:

Indirect costs may be specifically identified and apportioned into the direct cost of services provided. These costs become a direct cost when properly identified, documented and allocated.

Indirect cost pools or centers may be established to accumulate expenditures. These costs may be distributed to service or cost categories based on a rate identified in the cost allocation plan. A line item may be identified for indirect costs for each service or cost category.

Distributing indirect costs to the appropriate services requires the development of an allocation methodology. This methodology shall logically apportion these costs among services receiving a benefit. The methodology is at the discretion of the agency; however, it shall result in a fair and equitable distribution of costs, and shall be in direct relation to actual benefits accruing to the services to which the costs are charged. The agency shall obtain an opinion from a public accounting firm on the equitableness of its cost allocation plan.

To be allowable for Departmental participation, indirect costs shall meet the following criteria:

Be necessary and reasonable for the proper and efficient operation and administration of the contract.

Be authorized under statutes and regulations.

Conform to limitations, exclusions or allowable cost standards for items of expenditure as included in this chapter if more than 50% of the agency's indirect costs are allocated to mental health or intellectual disabilities programs, or both, funded by a county/joinders.

Be accorded consistent treatment as either a direct or indirect cost.