

# Cost Allocation Models

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UNDERSTANDING YOUR TRUE UNIT COST

# Introduction & Housekeeping

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## Housekeeping:

- Slides are posted at [MCTAC.org](https://mctac.org)

**Reminder: Information and timelines are current as of the date of the presentation**

**Please use the chat box to send in your questions**

# Challenges when starting new programs

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Understanding regulatory requirements

Projecting volume

Capturing costs and projecting revenue

# Financial core competency

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Understand your true  
unit cost of service by  
program

# What does it take?

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- ▶ Well designed chart of account and cost center structure
- ▶ Integration of your service volume with your cost data at the program level
- ▶ Accurate capture of costs directly related to program services
- ▶ **Accurate allocation and assignment of share program costs**

# What is cost allocation

**Process of assigning shared costs to multiple cost centers based upon a methodology that as closely as possible approximates the amount of shared resources that the each cost center will consume.**

# Shared Operating Cost Example

An agency runs three separate programs out of a single location that they pay rent for

Location	110 Common Avenue
Total sq. ft	10,000
Annual Rent	\$22,000

Programs:	Program A	Program B	Program C
Sq. ft	3,000	2,000	5,000
% of sq. ft	30%	20%	50%
Cost allocation	\$6,600	\$4,400	\$11,000

# Rent Example – the process

- ▶ Determine the exclusive square footage assigned to each program
- ▶ Calculate the percentage used by each program
- ▶ Allocate shared costs based upon that percentage
- ▶ Use this same method for all costs related to the space, such as:
  - Utilities
  - Maintenance



# What guidance does the CFR give on Appendix J for OTPS

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OTPS	Recommended Allocation
Food	Meals Served
Repairs and Maintenance	Square Feet
Utilities	Square Feet
Transportation Related	Number of Trips or Mileage
Staff Travel	Full-Time-Equivalents
Expensed Equipment	Units of Service
Subcontract Raw Materials	Units of Service Only
Participant Wages	Units of Service Only
Staff Development	Full-Time-Equivalents
Supplies and Materials	Units of Service
Telephone	Number of Lines
Other	Units of Service

**If the recommended allocation method is not reasonable, the Agency Provider may determine a more reasonable method of allocation.**

# Shared Staff Example

A staff splits their time between three separate programs, no additional hours

Staff	D. Wawrzynek
Pd hours per yr.	1,950
Hrs per pay	75
Annual salary	\$48,000
Hourly rate	\$24.62
Bi-weekly pay	\$1,846.15

Programs:	Program A	Program B	Program C
Hours per pay	30.75	28.5	15.75
% of time	41%	38%	21%
Cost allocation	\$756.92	\$701.54	\$387.69

# Shared Staff Example – the process

- ▶ Determine the number of hours worked in each program
- ▶ Calculate the percentage used by each program
- ▶ Allocate shared costs based upon that percentage
- ▶ Use this same method for all costs related to the staff, such as:
  - Fringe benefits
  - Travel
  - Staff development

# What guidance does the CFR give on Appendix J for shared staff

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- ▶ Actual hours of service is the preferred statistical basis upon which to allocate salaries and fringe benefits for staff who work jointly between programs. Providers must maintain appropriate documentation (e.g., payroll records) reflecting the hours used in this allocation.
- ▶ If the preferred method cannot be utilized, allocations based on time studies will be accepted.

# Recommendations

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- ▶ **It is preferred to have staff record their actual time by program on their time sheet. Most payroll systems will allow you to enter hours by staff by program and will allocate the salary accordingly.**
- If your payroll timesheet system does not support tracking hours by program you may need to create other options for collecting time by program. For example, a simple excel spreadsheet could be used by staff to record their time that would be used by payroll when entering hours into the payroll system.

# Recommendations (cont)

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- ▶ Although time studies are an allowable method they are difficult to manage, an administrative burden and in many cases will be an inaccurate method to capture true costs.

*Remember, your primary goal is accuracy*

# Special consideration for Exempt (Salaried) staff

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- ▶ **Some organizations do not have exempt staff record hours worked and therefore may not have a mechanism on time sheets to record hours by program.**
- ▶ **To be compliant with CFR requirements and good cost accounting practices you will need to develop workflows that capture the amount of time shared staff spent in each program on a daily basis.**
- ▶ **These hours need to be aggregated each pay and be used to allocate costs in the payroll system or in a monthly salary cost reallocation journal entry**

# Paying Staff additional hours

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- ▶ Paying existing staff additional hours can be an important tool when implementing a new program or expanding an existing one. Some advantages are:

Programs can be rapidly implemented

Initial recruitment and onboarding costs are reduced

Demand can be evaluated and FT hiring can be phased in

Many staff are interested in additional pay for additional hours



# Additional Hours-Shared Staff Example

A staff splits their time between two separate programs, with additional hours in program B

Staff	D. Wawrzynek
Pd hours per yr.	1,950
Normal Hrs. per pay	75
Annual salary	\$48,000
Hourly rate	\$24.62
Normal bi-weekly pay	\$1,846.15

Programs:	Program A	Program B	Total
Hours per pay	75	3.5	78.5
FTE	1.0	.047	1.047
% of time	96%	4%	100%
<b>Cost allocation</b>	<b>\$1,846.5</b>	<b>\$86.17</b>	<b>\$1,932.67</b>

# Additional hours considerations

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- ▶ **When paying hourly staff, care must be taken to assure they are paid time and a half for time over 80 hours per bi-weekly pay**
- ▶ **Employers can track the hours of exempt staff and exempt staff can be paid for additional hours without violating their exempt status**
- ▶ **Extra hours can be paid to exempt staff on any basis but most employers convert annual salary into an hourly basis and pay additional hours at that rate**
- ▶ **It is not necessary to pay exempt staff time and a half for hours over 80 in a bi-weekly pay**

# Questions and Discussion

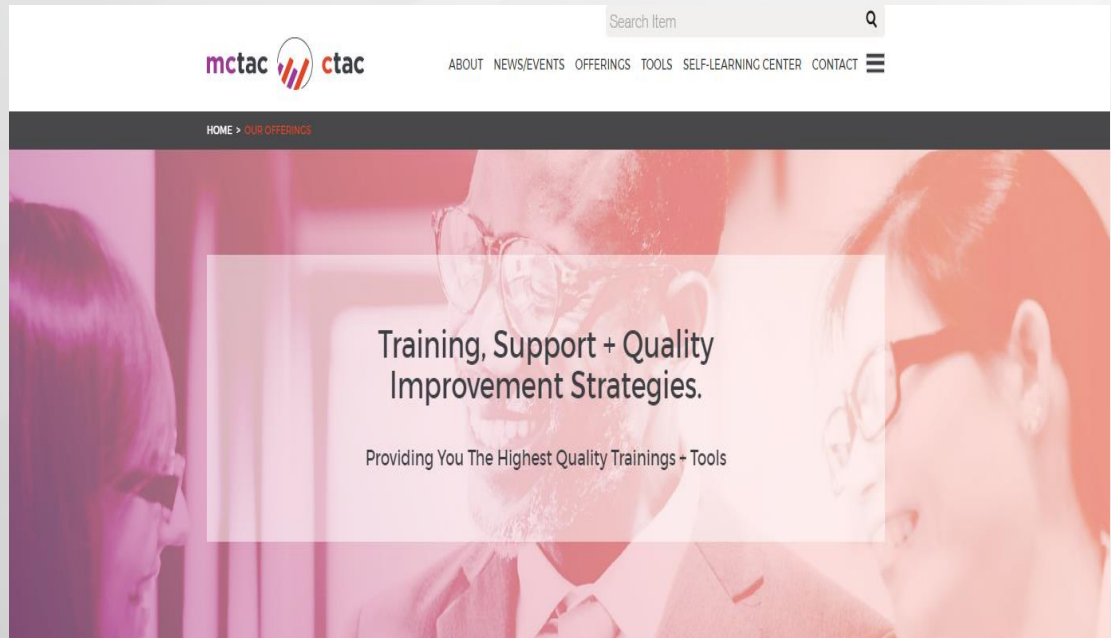
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Please send questions to:  
[mctac.info@nyu.edu](mailto:mctac.info@nyu.edu)

Logistical questions usually receive a response in 1 business day or less.

Longer & more complicated questions can take longer.

We appreciate your interest and patience!



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