



POSITIVE ACTION FOR DEVELOPMENT

**SHARED PROGRAM COSTS
ALLOCATION POLICY**

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Dire Dawa, Ethiopia**

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1. EXECUTIVE SUMMARY

1.1. Purpose/General Statements:

The purpose of this cost allocation policy is to summarize, in writing, the methods and procedures that the organization will use to allocate shared costs to various programs, grants, contracts and agreements and to ensure compliance with donor rules and regulations. This shared program cost allocation policy applies to all PAD's program/projects implemented

1.2. Definition:

Shared Program Costs are core costs (indirect costs) such as administration and general expenses incurred by PAD to support all programs and awards implemented in the organization. These costs include personnel costs, rent, utilities, insurance, supplies, maintenance & repair and other general operating costs that are reasonable and necessary for the overall operation of the organization but cannot be easily identified with a particular program or award.

1.3. Policies Highlights:

PAD treats all costs incurred that can be identified specifically with a particular final cost objective as direct costs. Direct costs that can be easily identified with a program or an award are *Direct Program Costs*. Indirect costs are incurred by PAD for services and activities that benefit more than one program/grant. and cannot be readily identified with a particular final cost objective. Those costs are allocated to programs, grants, etc. using a base that results in an equitable distribution.

Therefore, the total cost of a program is the sum of the direct costs and shared program cost. Direct and indirect costs should be included in each proposal, program or budget. The principle behind PAD's approach to cost allocation is to recover from donors allowable costs that are necessary to implement programs and grants. PAD will make all efforts to maximize the use of restricted funds to cover shared program costs within



agreed donor budget limits and in compliance with donor regulations to charge programs and grants their fair share of costs.

PAD uses standard *factors* to allocate shared program costs to the programs and awards based on the benefits each receives. Costs allocated that cannot be covered by an award are reallocated to other sources of funding available for that program based on *agreement from donors*. In case the allocated shared program costs cannot be covered by an award due to budget shortfall or donor regulations, will charge its share of the funding gap to unrestricted funds (if any). When preparing proposals, PAD should first estimate and then negotiate the shared program costs with the donors to avoid unnecessary expenditures of unrestricted funds.

2. PURPOSE/GENERAL STATEMENTS

The purpose of this cost allocation policy is to summarize, in writing, the methods and procedures that the organization will use to allocate shared costs to various programs, grants, contracts and agreements and to ensure compliance with donor rules and regulations. This shared program cost allocation policy applies to all PAD's program/projects implemented.

This cost allocation policy is based on the Direct Allocation method. The Direct Allocation Method treats all costs as direct costs except administration and general expenses. Direct costs are those that can be identified specifically with a particular final cost objective. Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. Only costs that are allowable, in accordance with the cost principles, will be allocated to benefiting organization programs.



3. POLICY DETAILS

3.1. Policy Statements

- 3.1.1.** The total cost of a program is the sum of the *direct costs* and *indirect costs*. Each proposal, budget or plan must include estimates of direct and indirect costs with a goal of full cost recovery.
- 3.1.2.** Indirect costs are incurred by PAD for services and activities that benefit more than one program/grant and cannot be readily identified with a particular final cost objective.
- 3.1.3.** PAD treats all costs incurred that can be identified specifically with a particular final cost objective as direct costs. Direct costs that can be easily identified with a program or an award are *Direct Program Costs*. Indirect costs such as administration and general expenses incurred to support all programs and awards implemented in the organization are *Shared Program Costs*. These costs include personnel costs related to shared finance and program support services, rent, utilities, supplies, maintenance & repair and other general services or operating costs that cannot be easily identified with a particular program or award.
- 3.1.4.** Whenever feasible, personnel costs are budgeted and charged directly to the awards on which the staffs are working. Whenever feasible, personnel costs for staffs that support multiple awards or programs are directly allocated to those awards as supported by personnel activity reports. When direct charge is not feasible because staffs provide general administrative support to all programs and awards in the office, these costs are treated as *Shared Program Costs*.
- 3.1.5.** Shared Program Cost budget for operations should be developed in the categories identified in section 4.2.2. This budget should clearly identify those costs charged directly to individual awards based on donor requirements and allocated to awards and other funding sources. The allocation methodology should take into account *Shared Program Costs* charges to produce reasonable and equitable results.

- 3.1.6.** An award must not be charged more than allowed in the approved budget. The management must review individual donor agreements and ensure that shared program cost allocations do not violate the terms and conditions of the award.
- 3.1.7.** PAD's normal rule is that all awards contribute to shared program cost recovery using a fair share basis. If certain donors limit contributions to shared program cost, the management is responsible to identify other sources of funding to cover the shared program cost funding gap. Some donors may accept to cover a larger amount of shared program cost than would result from the fair share calculation, to support the achievement of the overall objectives of a particular program initiative. Therefore, shared program cost that cannot be covered by an award may be covered by other awards or supplementary funding from other program based on agreement from donors. Such agreement must be documented.
- 3.1.8.** PAD may use unrestricted funds only if restricted funds are unable to cover the full costs of a program. As unrestricted funds are limited resources, PAD should negotiate the full recovery of their program costs with donors.
- 3.1.9.** PAD must maintain adequate documentation to support shared program cost allocation factors and results.

4. SHARED PROGRAM COST ALLOCATION PROCESS AND GENERAL PRINCIPLES

This section provides a high level description of the allocation procedure. Detailed guidelines are provided section 4.2.2. to describe the technical cost allocation process, the system used to run the allocation and how to produce allocation results.

4.1. Process Overview

The shared program costs allocation and cost recovery process works as follows:

- 4.1.1.** PAD incurs two types of costs: direct program costs and shared program costs;
- 4.1.2.** Shared program costs are charged either directly to the awards based on donor agreement, or allocated to awards and other funding sources.
- 4.1.3.** Shared program costs allocation is done proportionally to the all programs as per the detailed guidelines are provided under section 4.2.2.
- 4.1.4.** Shared program costs that cannot be covered by one award have to be allocated to other sources of funding for that same program, based on agreement from donors.

4.2. Shared Costs Allocation Method and Factors

4.2.1. General Approach

The general approach of PAD in allocating costs to particular grants and contracts is as follows:

- 4.2.1.1.** All allowable direct costs are charged directly to programs, grants, activity, etc.
- 4.2.1.2.** Allowable direct costs that can be identified to more than one program are prorated individually as direct costs using a base most appropriate to the particular cost being prorated.

4.2.1.3. All other allowable general and administrative costs (costs that benefit all programs and cannot be identified to a specific program) are allocated to programs, grants, etc. using a base that results in an equitable distribution.

4.2.2. Details Shared Program Cost Allocation

The following information summarizes the shared program costs allocation procedures that should be used by the organization:

4.2.2.1. Personal Salary and Benefit

Documented with timesheets showing time distribution for all employees and allocated based on time spent on each program or grant. Salaries are charged directly to the program for which work has been done. Costs that benefit more than one program will be allocated to those programs based on the estimation of the employees time spent on each program/grant. Fringe benefits-pension contribution, medical allowance, severance and staff development are allocated in the same manner as salaries.

4.2.2.2. Professional Services Costs (such as Consultants Services)

Professional Services Costs will be allocated to the program benefiting from the service. All professional service costs are charged directly to the program for which the service was incurred. Costs that benefit more than one program will be allocated to those programs based on the ratio of each program's expenses to the total of such expenses. Costs that benefit all programs will be allocated based on the ratio of each program's expenses to total expenses.

4.2.2.3. Audit Costs

Identifiable direct audit costs are charged directly to the program. Audit costs that benefits all programs are allocated based on the ratio of each program's expenses to total expenses.

4.2.2.4. Stationary, Supplies, Postage, Fax, Copier

Those expenses are charged directly to programs that benefit from the service. Expenses that benefit more than one program are allocated based on the usage of such services. This can be determine base on

- ✓ Stationary, supplies, copier:-a log sheet detailing number of copies made per program that fills out by employees.
- ✓ Postage:- records on log sheet which programs to charge and number of outgoing envelopes times postage rate

4.2.2.5. Telephone/Communications

Long distance and local calls are charged to programs if readily identifiable. Other telephone or communications expenses that benefit more than one program will be allocated to those programs based on the number of frequent telephone users' employees per program and the size of the program.

4.2.2.6. Travel Costs

Travel costs are allocated based on purpose of travel. All travel costs (local and out-of-town) are charged directly to the program for which the travel was incurred. Travel costs that benefit more than one program will be allocated to those programs based on the ratio of each program benefited from the travel.

4.2.2.7. Vehicle Costs (Vehicle fuel, vehicle maintenance and repair costs)

- ✓ Vehicle costs are allocated to the program benefiting from the vehicle. Vehicle costs that benefit more than one program will be allocated to those programs based on the vehicle usage ratio. This can be determined based on the log

sheet detailing number of kilometer travel per program that fills out by driver times the vehicle cost.

4.2.2.8. Facilities Expenses (includes Rent, Utilities, Maintenance, repair, Cleaning)

Facility expenses are allocated based upon usable square footage. The ratio of total square footage used by all personnel to total square footage is calculated. Facilities costs related to general and administrative activities are allocated to program based on the ratio of program square footage to total square footage.