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Cost Allocation – What, Where, Why?

2023 WHSFMA Conference

CLA

- CLA is an international accounting firm with a full range of services for governmental entities including accounting, auditing, consulting, IT assistance, internal control reviews and more.



CLA – Wisconsin

- CLA Wisconsin includes teams focused exclusively on State and Local Government. Teams are located across the state and collectively provide financial and single audit services for 35+ counties. We also provide various non-audit services to both audit and non-audit clients.



Bridget Van Laanen

- 16 years' experience
- Schenck merged into CLA in 2019
- Audited full-time from 2006-2012
- Moved into Human Services consulting in 2012.



Human Services Consulting

- Accounting and reporting
- Chart of accounts
- Cost allocations
- Internal controls
- Individualized guidance



Quiz

- Can play individually or in teams, but one prize per team
- Each question has a time limit; most are 20 seconds
- All multiple choice or T/F
- Choose the most obvious answer
- Go to Kahoot.it in the internet browser on a phone, tablet or laptop and enter the code on the screen



Human Services Fiscal Challenges

- A Human Services department may have 100+ grant and billing programs funded by local tax levy, state and federal grants and various third-party revenues.
- County's financial and executive management may not understand the rules, regulations and intricacies of Human Services programs.
- Department management, fiscal and program staff may not fully understand either.
- Financial managers often have to bridge the gap in knowledge with all these parties.



Growth Over Time

- Human Services departments have grown exponentially over the last few decades from just a handful of grant programs 40 years ago.
- Many departments didn't have Financial Managers or anyone with an accounting background; accounting and reporting was completed by admin staff who worked their way up without any formal training.
- Some adapted as programs were added, redesigning worksheets and accounts over the years, but very often, new programs and reporting requirements were shoehorned into existing worksheets and chart of accounts.



Ongoing Issues

- Dated chart of accounts that lack meaning often lead to complicated calculation worksheets for grant reporting that require manual data entry, calculations, and adjustments. They are also prone to error.
- Calculations and adjustments not recorded in the general ledger make it difficult to provide accurate and timely information to department and county management.
- Manual calculations and recordkeeping, especially when there is no documentation of the process, leaves new employees scrambling when there is turnover in department fiscal positions.



Recent Issues

- Many counties are integrating Aging, ADRC, Child Support and/or Public Health into their Human Services departments while facing staff turnover across their entire Human Services department - program, fiscal and management.
- Many counties are finding that their grant administration processes and procedures have not been documented in a way that will ensure a smooth transition when staffing changes happen.
- Some counties had difficulty spending, tracking, and reporting costs for COVID-19 related grants.



Why Does This Matter?

- The code of Federal Regulations CFR 200.302 includes the requirement that all Federal Awards expended must be identified in the accounts of the financial management system.
 - <https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-E>
- A few county Human Services departments receive direct Federal grants, all receive some kind of Federal funding as a sub-grantee passed through state departments; it may be mixed with state funding for some grants.
 - Many state grant program contracts refer to the Federal guidance, even if they aren't funded by any Federal dollars.



What Should Happen

- Counties need an updated account structure to reflect current programs and reporting needs, as well as to maintain compliance with State and Federal regulations.
 - Account structures should enable not just grant reporting, but also managerial needs for Director and Board. They should be able to see what is being claimed and the current revenues from all sources in each program, including grants, billing, and tax levy.
- County Human Services departments need to continuously update cost allocations for their program, fiscal and administrative shared costs, and document everything in detail!



Why hasn't this happened?

- Many counties have antiquated account structures designed for the programs that existed 40 years ago. Overhauling the sprawling account structure in a Human Services department is daunting.
 - Large number of programs
 - Large number of employees
 - Employees split time to multiple programs.
 - Contracted employees
 - Multiple locations
 - Many types of costs
 - Costs that can have multiple funding sources.



Why hasn't this happened?

- Staffing challenges
 - Lack of technical program knowledge
 - Lack of general accounting skills
 - Lack of an involved or staffed county Finance department
 - No time for anything beyond the day-to-day
- Challenging General Ledger Systems
 - Old and lacking features and reporting options
 - New and not fully/ideally set up.
- Lack of timekeeping system for employees



What to Do Right Away

- Identify any known or suspect issues in your account structure and reporting process
 - Verify the proper treatment.
 - Create a solution within your current structure and processes that can be implemented immediately – it may take more time/work temporarily.
 - Track any changes you've made so more efficient, permanent solutions can be implemented later.



What to Do Right Away

- Review current allocations – see if they are logical and reflect the current situation
 - Federal and state guidelines focus on reasonability – if an allocation isn't logical or doesn't make sense, it may be incorrect, even if it's been done that way for years.
 - Create a list of issues; if more than a few small things, the entire allocation may need to be redesigned.
- Create a list of funding sources
 - Who is the grantor, federal or state funded, what line/system they are reported on, what types of costs are currently incurred and claimed.
 - You may need to review grant contracts, grantor websites and talk to program supervisors and employees to get an accurate picture of all funding, including billing.



What to Do Right Away

- Share this information
 - Review with the Department Director and other Managers as needed.
 - Review with the County Finance Director if applicable.
 - If there are issues that require more than small corrections, come up with a plan and timeline to do a larger project.
- Advocate for the department's accounting and reporting needs
 - Human Service Financial Managers and Directors are responsible to grantors, county management and taxpayers.
 - Get help when needed
 - Grantors
 - Consortiums
 - State agencies
 - User and work groups
 - Consultants



Allowable Costs

- Federal, State and grant-specific rules
 - Grant application
 - Grant contract
 - Can vary grant to grant
- Resources for Specific Items of Cost
 - CFR 200.420 - 200.476 General Provisions for Selected Items of Cost
 - <https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-E#subpart-E>
 - DHS Allowable Cost Policy Manual
 - <https://www.dhs.wisconsin.gov/business/allow-cost-manual.htm#interest>
 - DCF Allowable Cost Policy Manual – Different!
 - <https://dcf.wisconsin.gov/files/finance/fias/pdf/dcfallowablecostmanual.pdf>



Allowable Costs

- Uniform factors
 - Reasonable and necessary
 - Consistent treatment
 - Follow county and department policies
 - Follow GAAP
 - No double-dipping on Federal match
 - Be documented
 - Incurred during the grant period



Types of Costs

- Direct
- Allocated
- Shared and Admin Costs
- Administrative/AMSO
- Indirect



Direct Costs

- Costs that only benefit one program without being allocated
 - CFR 200.413 Can be “directly assigned to such activities relatively easily with a high degree of accuracy.”
 - Typically easy to determine and assign.



Direct Costs

- Common Examples
 - Office Supplies purchased for and used by a specific program
 - Colored folders used specifically for CLTS.
 - Promotional pens for distribution by an ADRC.
 - Postage
 - Brochures mailed for Birth-to-Three outreach.
 - Program documents mailed to program consumers.
 - Printing
 - Brochures mailed for Birth-to-Three outreach.



Direct Costs

- Common Examples
 - Cell Phones
 - Only when used exclusively for a specific program, such as a CPS on-call phone.
 - Employee Payroll
 - ONLY when employees are 100% dedicated to one grant program/reporting line.
 - Rare in small and medium size counties; usually seen in larger counties where they may have entire units dedicated to one grant program.



How to Account for Direct Costs

- Charge to program-specific accounts
- Have a standard listing of frequent costs/vendors/accounts for accounting staff.
 - A few counties have authorizations processes built into their EMR system for all programs to make the review, approval, and payment process more secure and efficient.
- Someone with knowledge of the program's rules and requirements should assign the account number and someone else should review and approve the account number.
- Financial Manager should always review an AP proof report – this is a key internal control.



Allocated Costs

- Costs that benefit more than one program
 - CFR 200.405 three requirements
 - Incurred specifically for the Federal award.
 - Benefits both the Federal award and other work and can be distributed in proportions that may be **approximated** using **reasonable** methods.
 - Is necessary to the overall operation of the agency and is assignable in part to the Federal award in accordance with the principals in this subpart.
 - Certain costs have very specific Federal and sometimes State requirements, provisos, and exceptions.



Administrative Costs

- This is a generic term that has different meanings depending on who is using it – it might mean AMSO, it might mean program-specific Admin costs, it might mean anything that isn't a direct program cost, it might mean something else.
 - AMSO is agency-wide – every program in the entire department receives a benefit from the cost – more about AMSO later.



Shared Costs

- This is a generic term for costs that don't provide a benefit for every program in the department, but benefit more than one program, often in a specific unit. Examples include:
 - Unit or Program Supervisor – payroll and related costs shared between all programs in their unit. An Economic Support Supervisor benefits IM, Fraud and Childcare.
 - Unit or Building-specific Costs
 - Rent
 - Janitorial
 - Liability insurance (some units)
 - Phones



Timing

- Indirect cost plans use audited information and are prepared by an outside contractor, so there is a two-year lag.
 - 2021 costs and data are used in the plan for 2023 grant reporting.
- To account for the delay, a roll-forward adjustment is made.
 - Compares the allocated amounts from the current plan to the allocated amounts plan two years prior – the difference is the adjustment.
- Because of this delay, it's important to make sure the plan is updated accurately each year.



Payroll

- Payroll is the largest cost at virtually any Human Services department. Financial Managers need to be familiar with the rules on compensation – both personal services and fringe benefits. It is most often an allocated cost, but sometimes can be a direct cost.
- Compensation must be reasonable – can't pay more than other employees or the market rate just because you have a grant.
- There are some Federal maximums, but typically not a concern in Wisconsin/Human Services.



Payroll

- Payroll costs claimed need to follow the county's payroll policies and procedures approved by the board – benefits must be part of a written, approved policy.
- How a county allocates payroll and all other allocated grant costs needs to be part of a written, approved Cost Allocation Plan.
 - This is not the indirect cost plan! More on that later.
- Benefits including PTO must be proportionally allocated to all programs an employee works in and all employees must be allocated in the same methodology – must be consistent.
 - Cannot allocate one employee in a unit and not another when they both work in the same two programs.



Payroll Expenditures – Documentation Requirements

- Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.
 - Need to track employee time, typically 100%-time reporting.
 - Need to have a review, certification and approval process by employee, supervisor, and Financial Manager.
 - Fed and state levels used to have very specific employee certification time requirements – most have been removed. DCF requires employees to sign off at least annually.
 - Best practice is to have a standard monthly process that is uniform for all employees, even if not technically required. Easier to enforce the same rules for everyone.



Payroll Expenditures – Documentation Requirements

- Be incorporated into the official records of the agency.
 - Paid through the general ledger.
 - Allocations recorded on the general ledger.
- Reasonably reflect the total activity for which the employee is compensated for.
 - Must track all programs– can't just track one because there is grant funding available.
 - Must include all compensation.



Payroll Expenditures – Documentation Requirements

- Support the distribution of the employee’s compensation among specific activities if the employee works on more than one activity/task.
 - Need to split costs between all activities – may be multiple categories.
 - Grant program
 - Shared unit cost pool
 - Shared department cost pool
 - AMSO
 - Need to include all time off/non-program time.
 - PTO, general training and other non-specific time needs to be included in the timekeeping records and accounted for in allocation percentages. The costs of these items typically should be allocated.



Payroll Expenditures – Documentation Requirements

- Comply with established accounting policies and practices.
 - County Human Services departments have to follow
 - GAAP
 - GASB standards
 - Governments in Wisconsin use modified accrual accounting for governmental funds (Human Services and related funds).
 - Revenues are recorded when measurable and available and expenditures are recorded when the liability is incurred, with some exceptions.
 - Counties usually have specific revenue recognition policies for grants, often 180 days after year end.
 - Counties should accrue payroll and other 12/31 payable expenditures in the year of service/purchase.
 - Grants are based on the year of service/purchase and must agree to the corresponding GL.



Payroll Expenditures – Documentation Requirements

- Budget estimates qualify as support and could be used for interim accounting if:
 - The system for establishing the estimates produces reasonable approximations for the activity actually performed.
 - Significant changes to the employee’s workload/tasks are changed in a timely manner.
 - The finalized annual costs are allocated based on actual data and all interim accounting and grant reporting is adjusted to the actual results.
 - There is rarely a situation when using budget estimates/interim accounting for grant-related payroll is appropriate for a Human Services Department.



How to Account for Payroll Expenditures

- Should be processed through general ledger payroll systems.
- 100% employees can be charged directly to program accounts.
- Employees working in/on more than one program/task should have their payroll costs allocated to a non-program cost pool that will be allocated.
 - Occasionally, a county *may* track, calculate, and directly change the employees' payroll distributions in the payroll system every pay period. While this can automate some of the allocation process, most payroll systems require manual data entry and rounding that can be tedious and time consuming and requires additional internal controls.



How to Account for Payroll Expenditures

- Most counties use some kind of worksheet to allocate payroll. Best practices include:
 - Automatic check figures – all totals should foot and cross check, totals from general ledger reports used should be entered and the worksheet should flag if they don't match.
 - Many counties use four decimal point percentages for payroll allocations; this is accurate and requires minimal rounding.
 - Automatically balancing journal entry calculations
 - Accessible design and formulas
 - Someone else in the county could use and modify the worksheet immediately if needed.
 - The next person in the position could quickly learn and become familiar with the worksheet.
 - Excel includes many advanced functionalities, but not always appropriate – VBA, Macros.



How to Account for Payroll Expenditures

- Automatically balancing account structure - built in internal controls
 - Accounts used to record payroll should never have journal entries made directly to them for allocations – preserves amounts for finance reconciliations, budgetary calculations, audit trail and review, etc.
 - Ideally, offset/contra/allocation accounts are established in the same org as the payroll that will net to zero once amounts are allocated.
 - Need to be able to show that any allocation net to zero.
 - Allocated wage/fringe accounts are located in program cost centers – can be summary accounts or could have accounts for each benefit.
 - Human Service programs don't typically need each benefit amount separate for any program reporting or grant/billing rate application.



Fiscal and Admin Employees

- Can be AMSO or shared or even direct in some larger agencies.
- With current staffing trends, very few employees are 100% AMSO.
- Billing employees are not AMSO – they may also complete some AMSO tasks, but billing only relates to some agency programs.
 - Should track time per program and/or create a billing cost pool, depending on circumstances/systems/programs.
 - Payroll and other billing costs can be pooled and allocated.
 - If a billing employee is 100% dedicated to Birth-to-Three for example, that is considered a direct cost for the Birth-to-Three grant.



Fiscal and Admin Employees

- Other Fiscal employees may or may not be AMSO, depending on the total number of staff, size of agency, division of work, etc.
 - An accountant in one agency may be 100% CLTS, whereas CLTS accounting may be 50% or even 5% of an FTE at other agencies.
- Receptionists in most agencies are not AMSO.
 - If more than one building/floor/entrance, need to allocate each receptionist to the programs/units covered.
 - Need to track time if there are clinic days, IM scanning or other tasks that relate to specific programs or units.



Fiscal and Admin Employees

- Filing Clerks, Typists, EMR managers/IT staff
 - These positions/tasks and related costs are often related to Clinical Services programs – MH and AODA clinics, grant, and other billing programs.
 - Payroll related to these tasks/positions needs to be allocated to the programs receiving the benefit, not AMSO.
 - While some counties are expanding the use of their EMRs to more programs than just Clinical Services, its usually not 100% of clients/programs.
 - Economic Support uses CARES and other state systems.
 - CPS/YA use WISACWIS
 - Very unlikely they would use an EMR for these programs or not at the same level as other programs.



Fiscal and Admin Employees

- Department Directors and Upper Management
 - These positions have typically been 100% AMSO and would not track their time.
 - Many Directors and other Managers are currently wearing multiple hats due to staff turnover and long-term vacancies.
 - Covering for Unit/Divisional Managers
 - Covering for Program Leads
 - Covering or carrying a regular caseload for a specific grant or billing program.
 - Every time they change their hat, they need to track their time
 - Relevant payroll and other related costs need to be allocated accordingly.



How to Account for Other Common Administrative/Shared Costs

- Costs should be pooled based on similar attributes
 - Space costs can be allocated by square foot per program/unit
 - Rent, Janitorial, Utilities, Security
 - Clinic
 - Reception staff, telehealth facilitators and phone lines/fees, non-billable professional time, clinic-specific space
 - Contracts
 - AP
 - EMR System
 - WIMCR



Agency Management, Support and Overhead (AMSO)

- Agency management usually includes employee costs for the Department Director, Financial Manager, and Human Services Board expenditures.
- Support includes the costs of employees that provide services to the entire agency, such as general receptionists, mailroom clerks and general fiscal employees.
- Overhead often includes building costs, such as rent, utilities and dedicated maintenance/janitorial employees.
- Can also include a department's allocation from the county's central services indirect cost plan.



How to allocate AMSO

- Many counties had a one-pot approach in the past.
 - Related to old reporting way back but is rarely appropriate anymore as discussed above in the payroll section.
 - In the past, there often wasn't sufficient technology available to accurately track an allocation basis, so many costs were combined.
 - Copy, postage machines and even telephone systems include the ability to track program codes if needed.
 - Many employee time-keeping options available
 - Billing software can provide summary reports for employees, providers, and clients per program as needed.



How to allocate AMSO

- Most counties need a multi-layered approach, with indirect costs being the first allocation, followed by various other cost pools.
- Every county will be different – needs to reflect reality and specifics.
- True AMSO is often allocated by agency FTEs, but that's not a rule.
- Allocations and cost pools need to be reviewed at least annually.



How to Account for AMSO

- All costs should be recorded in the applicable cost pools.
- A journal entry should be made to record the allocation of AMSO and cost pools.
- Like payroll, all original costs should remain in their original accounts; offset accounts can be used to show a cost center nets to zero as an internal control.



County-Wide Indirect Cost Plans

- Required by the DHS ACPM to claim indirect costs.
- Allocates the cost of activities other county departments perform for Human Services and Child Support so they can be claimed on grants.
 - A County Treasurer's office processes cash receipts and issues checks on behalf of other departments, as well as handling tax collection and banking. The cost of staff time, supplies and overhead expenditures related to the non-general services can be pooled by each service and allocated to the user departments through the indirect cost plan.



County-Wide Indirect Cost Plans

- The Treasurer's office would track staff time spent on each service, either by 100%-time reporting or by using sample days or weeks each month and this information would be used to allocate the treasurer's expenditures between receipts, checks and tax collection functions.
- Those amounts are subsequently allocated to user departments using a reasonable allocation basis; in the case of cash receipts, the total number of receipts per department could be used as an allocation basis.



Indirect Cost plan providers

- What Indirect Cost Plan Providers do
 - Compile county financial information, department time studies
 - Discuss updates from county staff.
 - Create allocation calculations and the plan report document.
- What Indirect Cost Plan Providers don't do
 - They are engaged to compile county-provided information, not audit the information.
 - They make basic inquiries and reasonability checks in regard to changes:
 - Organizational structure
 - Program/department locations
 - Financial structure



What to Look for in the Indirect Cost Plan

- <https://www.racinecounty.com/home/showpublisheddocument/41920/637973671156230000>
- Summary of Allocated Costs pg. 10
 - Shows the total to be used for each Human Services Division/Unit.
 - Shows a summary of costs allocated from each department.
- County Treasurer pg. 134
 - A summary for each allocated department and the detailed calculations is included.
 - Financial Managers should review all department allocations and make sure the allocation units are reasonable/accurate.



County Responsibilities

- Review the indirect cost plan with the appropriate employees annually and make sure it supports the user departments.
- The plan's main purpose is to allow user departments to claim eligible costs for their grant and billing programs—if the plan doesn't calculate accurate amounts or is designed poorly, it is not achieving its purpose.



County Responsibilities

- Key Points to watch for:
 - Economic Support should generally have lower per FTE costs than other parts of Human Services.
 - Corporate Counsel should be direct billing Human Services for time/costs spent on direct program services in the year of service – direct program costs should not be included in the indirect allocation.
 - TPR and CHIPS
 - Guardianships
 - Emergency Placements
 - Direct program costs should not be included in the indirect cost plan; if they are, agencies shouldn't be allocating that portion of the cost plan.
 - Plans can be revised if errors are discovered.



Special Note on Internal Service Funds

- Some counties use internal service funds (ISFs) to directly bill user departments for certain pools of cost, such as self-insurance programs, vehicles, or information technology. These funds bill county departments based on pre-established rates, which should include estimates of both direct and allocated costs, as well as any indirect and replacement (depreciation) costs.
- ISFs can be included in the indirect cost plan, but any amounts direct billed need to be credited and offset the costs allocated to the department.



Special Note on Internal Service Funds

- ISFs are not allowed to grossly overbill other departments and credit them back later in the indirect cost plan. This leads to a steady increase in the fund balance of the internal service fund and more importantly, overstated/overreported costs on grants.
 - Overbilling by ISFs will never be fully recovered through the indirect cost plan, as the difference will be allocated through cost pools, not to specific grants.
 - Uniform Guidance allows internal service funds to maintain a reasonable level of working capital reserves, which is defined as up to 60 calendar days' cash expenses for normal operating purposes. A working capital reserve exceeding 60 calendar days should be monitored closely by the county.



How to Account & Allocate Indirect Costs

- A few counties “charge” actual costs between the General Fund and Human Services on the GL – this makes the General Fund “Whole” if Human Service is receiving grant revenues from claiming those costs.
 - Most of the time Human Services does not receive reimbursement for the full amount of indirect costs; a corresponding amount of tax levy revenue is usually budgeted/transferred to cover the difference.
- Many counties use a combination of offsetting accounts to add indirect costs to the Human Service general ledger so they can be allocated.



How to Account & Allocate Indirect Costs

- Some counties add the costs directly to claim calculations and don't include them on the general ledger.
 - There's no way to show total costs claimed for each grant if indirect isn't allocated and recorded in program cost centers on the general ledger, which makes it extremely difficult to identify errors and reconcile to the GL.
- Allocations can vary
 - If plan is updated and corresponds to current department structure, each unit's indirect costs can be included in a shared unit cost pool.
 - If the plan is not updated for the current department structure, a revision may need to be requested.
- Indirect costs will always be a reconciling addition on a GL to reporting reconciliation.



Account Structure – Reference

- Wisconsin Chart of Accounts for Counties
 - <https://www.revenue.wi.gov/DORReports/ucacty.pdf>
 - Not required, but some counties are patterned after it.
 - Corresponds to a county-wide state financial report form required annual by May 15th (County Finance)
 - Can be a helpful jumping off point but hasn't been updated for a long time.
 - Common Revenue Coding
 - 43250 Direct Federal Human Services grant revenue
 - 43550 State Human Services grant revenue
 - 45100 Fines
 - 46530 Public Charges for MH Services
 - 46600 Public Charges for Human Services
 - 48100 Interest
 - 48200 Rent



Account Structure – Reference

- Wisconsin Chart of Accounts for Counties
 - Common Expenditure Coding
 - 54210 Nursing Home
 - 54300 Mental Health Services
 - 54410 Income Maintenance Administration
 - 54500 Social Services
 - 54600 Aging
 - 54900 Other HHS



Account Structure

- Have each segment mean something!
 - Having defined meanings across more segments and digits allows for greater flexibility to add and remove accounts/programs in the future without losing the logic of the structure.
 - Some systems allow for 6+ account segments – most counties have 5 segments, which can be structured to support monthly grant reporting, monthly financial reporting, and year end reporting, such as the 942/HSRR.
 - In counties where there is limited flexibility to change or a desire for fewer segments, each digit in a segment could mean something.



Account Structure

- Example
 - Org/Cost Center number
 - 545X0 - 4th digit can represent a Division/Unit
 - 5453X – 5th digit can represent a classification from the 942/HSRR and be helpful for budgetary and financial reporting.
 - Separate segment of four digits can represent programs.
 - 1st digit can represent reporting platform.
 - Other digits can represent line number or federal/state ID number.
 - 3306 Safe and Stable Families - SPARC
 - 2876 CLTS Admin - CARS
 - 4076 IM - Lead County



Account Structure

- Design account structure to support ongoing monthly reporting and financial management.
 - Annual reporting can also be considered but is of less importance if there's limited numbering options.
- Account numbers are free!
 - If more are needed for accurate, efficient reporting, create more!

