

Cost Allocation Plan (CAP)

A Cost Allocation Plan (CAP) is a document that identifies and explains the distribution of allowable direct and indirect costs and declares the allocation method used for distribution. The CAP allows the organization to analyze the financial performance of each program by assigning its share of overhead costs. Essentially, the CAP is the method used to divide the shared costs of an organization fairly and equitably to each of its programs. The CAP is one way to recover costs under [2 CFR 200 Uniform Guidance](#).

To determine the total cost of delivering specific services, a methodology(ies) for determining and distributing indirect costs must be developed and this is the purpose of cost allocation plans (CAP). The CAP identifies indirect costs and allocates them to benefitting direct cost programs in a logical, consistent, and reasonable manner.

The method of cost allocation assumes that all indirect costs are incurred proportionately to the direct cost of the program. This may not be a reasonable assumption in all cases. The benefit received from certain types of support services may be more closely related to another indicator of activity than cost. An example would be if a program service is primarily delivered through a contract and does not have any staffing directly associated with it, distributing human resource costs to it may result in an inequitable allocation of costs. The CAP establishes separate bases of allocation for each major indirect cost category. This approach allows indirect costs to be allocated to each direct cost program in a fair, convenient, and consistent manner. The CAP will list out the primary methods of allocation used in distributing indirect costs to direct cost programs. The cost of developing the information necessary to perform the cost allocations should not exceed the benefits to be gained.

There are various methods used for cost allocation plans and the organization can choose the one most suitable to their organization based on several factors:

- Size of Organization.
- Number of programs and diversity of funding streams.
- Ability to easily identify costs with programs as direct charges.
- Requirements of cognizant agency.

The choice of the cost allocation method depends on the objectives, assumptions, and limitations of the cost analysis. The organization needs to choose a cost allocation method that suits their purpose, type and nature of indirect costs, and their availability and reliability of data. The cost allocation method should be consistent, logical, and fair and should provide useful and relevant information for decision making.

Examples of cost allocation methods:

- Costs charged to one award or project based on an easily determined, measurable benefit to the project or activity.
- Costs allocated among multiple awards or projects based on an easily determined, measurable relative benefit across several benefitting projects or activities.
- Costs allocated among multiple awards or projects based on relative benefit when the benefit is known, but not easily determined or not practically measurable across several funding sources. An allocation

uses a reasoned basis to approximate the measurable benefit to distribute direct cost. For example, allocating rent based on square footage, allocating cost based on percent of usage.

A CAP should generally:

- Describe how the cost will be allocated.
 - Identify the overhead cost center.
 - Identify which costs are allocable and which are not.
 - Identify the data sources used for allocation calculations.
- Describe how the allocation methods are fair and equitable.
 - Identify the relevant, up-to-date information that will be used.
 - Identify the allocation factor for equitable cost distribution.
 - Allocate to all benefitting funds and departments.
- Identify the documentation required to support the allocations.
 - Costs to operate each overhead cost center.
 - How the level of service to each benefitting fund/department was determined.
 - Amount charged to each benefitting fund/department.

The requirements for development and submission of a central services cost allocation plans are contained in [2 CFR 200 appendix V](#). Major local governments claiming central service costs are required to submit a plan in accordance with the requirements in [appendix V of 2 CFR 200](#) to their cognizant agency annually. All other local governments claiming central service costs must develop the plan in accordance with the requirements in this part and maintain the plan and related supporting documentation for audit. These local governments are not required to submit their plans for Federal approval unless they are specifically requested to do so by the cognizant agency. If the local government only receives the funds as a subrecipient, the pass-through entity is responsible for monitoring the subrecipient's plan.

Per [2 CFR 200](#), all central services cost allocation plans will be prepared and when required, submitted within six months prior to the beginning of each of the governmental unit's fiscal year in which it proposes to claim central service costs.

Resources:

2 CFR 200 Uniform Guidance [Appendix V State/Local Governmentwide Central Service Cost Allocation Plans](#)

MnDOT Office of Financial Management – Grants Unit, [MnDOT Subrecipient Guide](#)

Florida Maternal Infant and Early Childhood Home Visiting Program, [Cost Allocation Plans 101](#),

University of California Controller's Office, [Cost Allocation Methodology Best Practices](#)