

# **“Is Your Organization Healthy?”: Cost Allocation, Invoices and Personnel (Payroll and Timesheets)**

Marissa M. Tirona  
Project Director  
February 24, 2010

# Learning Objectives

- To develop and implement a comprehensive allocation process
- To identify the hallmarks of an effective timekeeping system
- To understand the importance of accurate, well-supported invoices



# Why Allocate Expenses?

- Business Analysis
- Cost Recovery
- It's Easier!



## The Regulatory Environment - Costs Must Be . . . .

- Reasonable: Ordinary and necessary to accomplish the purpose of the contract and comparable to market prices.
- Allowable: As per the circular. Those costs for fundraising activities are not allowed by the government.
- Allocable: They must benefit the cost objective.
- Consistently applied: You cannot switch methods to generate more revenue or treat one cost as direct for one contract and indirect for another government contract.
- Documented: The methodology for allocating costs should be documented. This includes time studies and functional time sheets.

# Related Compliance Form Boxes



## 1B. Cost Allocation Procedures

- a. Process for cost allocation procedures and plan for shared costs is documented in a written narrative or in the footnotes of the current approved agency-wide budget
- b. Process for allocating shared program costs is consistent and reasonable
- c. Process for cost allocation procedures and plan for indirect costs is documented in a written narrative or in the footnotes of the current approved agency-wide budget
- d. Process for allocating indirect costs is consistent and reasonable

# The Allocation Process

- Categorize expenses
- Choose an allocation basis
- Allocate shared costs
- Allocate administrative/overhead costs
- Calculate indirect rate

# Cost Categorization: Language Matters

Program  
Specific/Direct

Overhead/Indirect

Common/Shared

# Cost Categorization: Language Matters

Cost Categorization	Possible Audience
Program vs. Supporting	IRS / Audited Financials Watchdog Agencies Donors
Specific vs. Shared	Internal management Auditors
Direct vs. Indirect	Funders: Foundations and Government contracts

# Organizational Costs: Definitions

<b>Administrative/Overhead</b>	Those not identifiable with a single program, fundraising, or membership development AND indispensable to the organization's existence such as finance, accounting, legal, and board-related expenses [Note: Also includes cost of negotiating exchange transactions and/or government contracts]
<b>Fundraising</b>	Cost associated with soliciting contributions from individuals, foundations, and corporations.
<b>Program</b>	Costs resulting in distributing goods and services to clients and fulfilling the mission of the organization
<b>Common/Shared</b>	Costs not easily identified with a specific program or supporting activity which are allocated and borne by all activities

# Organizational Costs: Examples

- **Direct or Program:** Program staff salaries, materials and supplies for programs, Consultants' fees
- **Indirect or Overhead/Administrative:** Portion of Executive Director's salary, Finance staff salary
- **Shared or Common:** Office manager's salary, rent, telephone, postage



## Estimating Costs: Roles & Responsibilities

Personnel	Salaries & FTE	Management Team
Program	Specific costs	Program Staff
Full costs	Specific plus allocated costs	Finance Staff
Capital	Fixed assets	Finance Staff/Management Team

## Possible Allocation Methodologies

- A percentage determined by dividing the **number of FTEs** of each activity by the total number of FTEs from all the activities (excluding any whose salaries are treated as common costs).
- A percentage determined by dividing the amount of the **payroll expenses** of each activity by the payroll expenses of all the activities (excluding common).
- A percentage determined by dividing the **square footage** used by each activity by the total agency square footage.
- A percentage determined by dividing the amount of the **specific expenses** of each activity by the total specific expenses of the organization.

# Calculating Indirect Rate

$$\frac{\text{Allocated Administrative Costs} + \text{Allocated Shared Costs}}{\text{Specific Costs}} = \text{Indirect Rate}$$



SAMPLE UNRESTRICTED BUDGET WITH SHARED COSTS ALLOCATED

2009-10 Budget: First Draft (summarized)

As for May 29, 2009

	Program Activities		Supporting Activities		Shared	Total	Total
	Shelter	Support	Admin-	Fund-	Costs	2008-09	2007-08
	Services	Groups	istration	raising			
Contributions	-	-	-	80,000	-	80,000	58,000
Fundraising events - net	-	-	-	135,000	-	135,000	125,000
Foundation grants	-	-	-	125,000	-	125,000	115,000
Total support	-	-	-	340,000	-	340,000	298,000
Government contracts	815,009	-	-	-	-	815,009	770,467
Interest and dividends	-	-	10,000	-	-	10,000	5,750
Unrealized gain (loss) on investments	-	-	-	-	-	-	-
Total revenue	815,009	-	10,000	-	-	825,009	776,217
Net assets released from restriction	-	445,000	-	5,000	-	450,000	453,000
Total income	815,009	445,000	10,000	345,000	-	1,615,009	1,527,217
Personnel expenses	329,852	214,881	117,365	127,339	179,161	968,598	973,204
Non-personnel expenses	416,750	129,300	28,100	44,750	224,113	843,013	505,507
Total specific costs	746,602	344,181	145,465	172,089	403,274	1,811,611	1,478,711
<b>See 1 Note Below</b>							-
Allocation of shared costs	181,473	125,015	44,360	52,426	(403,274)	-	-
Expenses before overhead/indirect	928,075	469,196	189,825	224,514	-	1,811,611	1,478,711
Change before overhead/indirect	(113,066)	(24,196)	(179,825)	120,486	-	(196,602)	48,507
% of direct costs See Note 2 Below	57%	29%	-100%	14%	0%	(0)	-
Allocation of indirect costs	108,200	55,049	(189,825)	26,576	-	(0)	-
Total expenses	1,036,275	524,245	-	251,090	-	1,811,610	1,478,710
Change in net assets	(221,266)	(79,245)	10,000	93,910	-	(196,601)	48,507

## Cost Allocation Plan: A Sample

- Organization uses a bottom-line allocation for shared costs
- Shared cost allocation methodology: # of Department FTEs/Total # of FTEs in Organization
- Indirect cost allocation methodology: Allocated Administrative costs + Allocated Shared Costs/Total Specific Costs

# Common Cost Allocation Challenges

- *“Um, we don’t have a cost allocation plan.”*
- *“Aren’t we supposed to allocate all of the executive director’s salary to overhead?”*
- *“We have to use different allocation methodologies – we have lots of different types of expenses. There is no ‘one-size-fits-all’ methodology!”*
- *“Different funders have different limits on the amount of indirect or shared costs that can be allocated to grants; what are we supposed to do?”*

# Related Compliance Form Boxes

## 1H. Payroll

- a. State (DE6) and federal (941) payroll tax returns were filed by the end of the month following the end of the quarter for monitoring months under review
- b. Employees paid with City funds listed on invoices checked in Section 1G above are listed on the DE6 for the quarter(s) that includes the monitoring months under review
- c. Payroll taxes due were actually paid

### Timesheets:

- d. If employee time is paid by more than one source, it is recorded by funding source or program on timesheets
- e. Employee & supervisor signatures on timesheets in ink
- f. All changes to timesheet are initialed by supervisor in ink
- g. Employees and hours charged to City contracts agree to timesheets and to payroll journals

## Timesheets: What to Look Out For

- Time spent on activity is accurately reflected, including breaks
- Activity is clearly defined
- Time is recorded by program or funding source
- Employee's and supervisor's signatures
- Any changes are initialed by supervisor

## Different Ways to Track Time



- Daily timesheets
- Weekly timesheets
- Time studies

# Related Compliance Form Boxes

## 1G. Invoices

### Expenses:

- a. Expenses tested on invoices have supporting documentation: credit card charges and/or petty cash expenditures are all documented with an original receipt and reasonably tie to the cost allocation plan.
- b. Contractor follows its policies for writing checks, credit card use, petty cash use, and/or reimbursement for expenses tested on invoices
- c. Tested expenses on invoices appear to be reasonably associated with the program budget

### If Units of service contract (usually DPH contracts only):

- d. Units of service provided are documented and agree with invoices

### If payments to subcontractors are included on invoices:

- e. Subcontractor authorized by contract
- f. Contractor paid its subcontractors' invoices per the schedule established in the subcontracting agreement and/or prior to receiving City reimbursement for the services delivered
- g. Subcontractor invoices show basis for work billed as performed (units of service, hours, reimbursable costs)

# Supporting Documentation for Invoices

- Payroll register for the months selected
- Paystubs
- Time sheets for the staff of interest to verify time worked on the program
- Fringe benefit documentation (e.g., bills from Kaiser for health benefits plan)
- Operating expenses (e.g., items that are either integral to the program, like participant stipends, subcontractor expenses, or any expense that is over \$1,000 in a particular month)
- Bank statements
- Cancelled checks
- Petty cash vouchers
- Credit card statements
- Itemized bill
- Units of service support (*usually DPH contracts only*) e.g., sign-in sheets, intake forms, etc.

## Other Resources . . .

- **Controller's website:**  
[http://www.sfgov.org/site/controller\\_page.asp?id=30547](http://www.sfgov.org/site/controller_page.asp?id=30547)
- **CompassPoint's Nonprofit Genie:**  
<http://www.compasspoint.org/askgenie/index.php>
- **Nonprofit Finance Fund:**  
<http://www.nonprofitfinancefund.org>
- ***"Financial Leadership for Nonprofit Executives"*** by Jeanne Bell and Elizabeth Schaffer

## *Next Steps . . .*

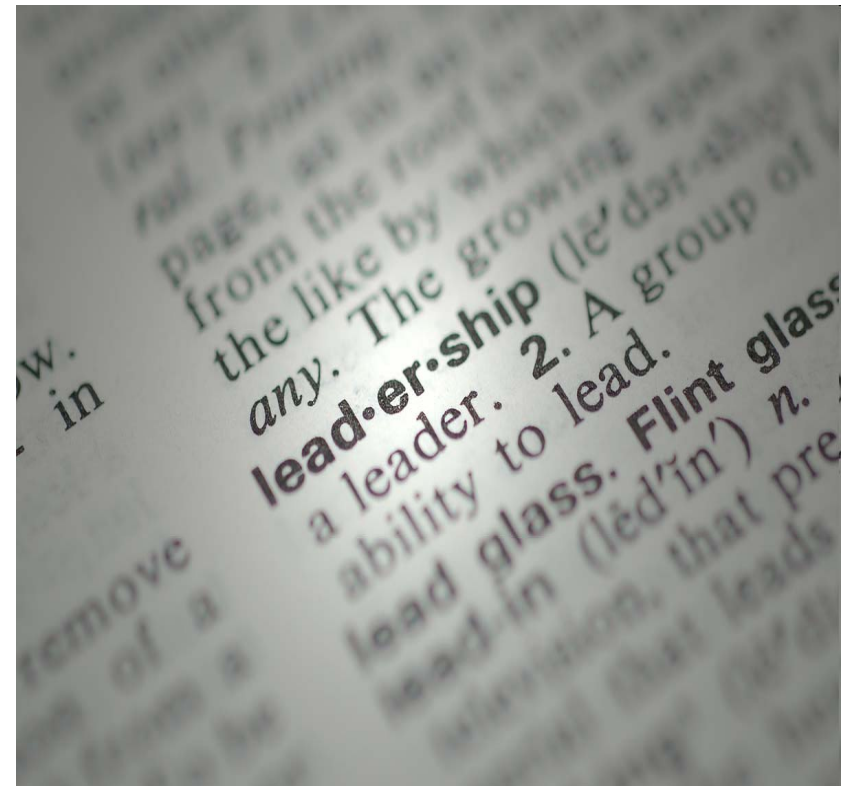


Inquiry:

*What next steps would you take as a result of what you learned today?*

## 5 Leadership Principles

1. Move beyond mission vs. money thinking
2. Cultivate financial leadership on staff/board
3. View nonprofit business as interdependent set of activities
4. Recognize relationship between strong infrastructure and strong programs
5. Set tone of accountability and transparency



# Contact Information

Nikhila Pai

Office of the Controller

[Nikhila.Pai@sfgov.org](mailto:Nikhila.Pai@sfgov.org)

415.554.7711

Marissa M. Tirona

415.541.9000

[marissat@compasspoint.org](mailto:marissat@compasspoint.org)

[www.compasspoint.org](http://www.compasspoint.org)