SHARED PROGRAM COSTS ALLOCATION

POLICY

Effective July 1, 2012
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# ACRONYMS

ADRET : Administrative Retention rate  
CI : CARE International  
CIK : Contribution-in-kind  
CIM : CARE International Member  
CO : Country Office  
HQ : Headquarters  
IPIA : Individual Project Implementation Agreement  
NICRA : Negotiated Indirect Cost Rate Agreement  
PAR : Personnel Activity Reports  
SPC : Shared Program Cost  
SSC : Shared Service Center
EXECUTIVE SUMMARY

PURPOSE AND SCOPE: This document defines the organization’s cost recovery methodology for Shared Program Costs (SPC), to optimize cost recovery and ensure compliance with donor rules and regulations and the CARE International (CI) code. The SPC allocation policy does not address areas such as budget proposals and forecasts, negotiation with donors, indirect cost recovery rate calculation or administrative retention. The policy applies to all CARE USA country offices (CO) but it can be adopted by other CARE International Members. A detailed procedure document is issued separately to provide in-depth description of the allocation technicalities.

DEFINITION: Shared Program Costs are core costs incurred by COs to provide management oversight, administrative and financial services to support all programs and awards implemented in the CO. These costs include personnel costs, rent, utilities, security, janitorial services, office maintenance and other general operating costs that are reasonable and necessary for the overall operation of the CO organization but cannot be easily identified with a particular program or award.

POLICIES HIGHLIGHTS: CARE USA treats all costs incurred by COs as direct costs. Indirect costs are expenses incurred by CI Member HQ and regional management units to support our global programs and all country offices. The total cost of a program is the sum of the direct costs and indirect costs. Direct and indirect costs should be included in each proposal, program or budget. Direct costs include two types:

- **Direct Program Costs**, that can be identified specifically with an award or program;
- **Shared Program Costs**, incurred for a common service benefiting all awards or programs.

Total Program Cost = Direct program cost + Shared Program Cost + Indirect cost

![Diagram of cost allocation]

The principle behind CARE USA’s approach to cost allocation is to recover from donors allowable costs that are necessary to implement programs and awards. COs will make all efforts to maximize the use of restricted funds to cover SPC within agreed donor budget limits and in compliance with donor regulations to charge programs and awards their fair share of costs. CARE USA uses standard factors to allocate SPC to the 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, CARE Member Partners and CARE USA. As per the CI code, in case the allocated SPC cannot be covered by an award due to budget shortfall or donor regulations, the CI Member who holds the contract will provide additional funding to cover reasonable SPCs. The CO will charge its share of the funding gap to CARE USA unrestricted funds.

When preparing proposals, CO should first estimate and then negotiate the SPC with the donors and the CI Member Partner to avoid unnecessary expenditures of unrestricted funds.
POLICY 43: Shared Program Costs Allocation

43.01 PURPOSE AND SCOPE
This document defines the organization’s cost recovery methodology for Shared Program Costs, to optimize cost recovery and ensure compliance with donor rules and regulations and the CI code. The SPC allocation policy does not address areas such as budget proposals and forecasts, negotiation with donors, indirect cost recovery rate calculation or administrative retention. The policy applies to all CARE USA country offices but it can be adopted by other CARE International Members. A detailed procedure document is issued separately to provide in-depth description of the allocation technicalities. This policy does not cover sub-office shared costs, since those costs do not meet the definition of supporting all programs. All costs at the sub office level are considered direct program costs.

43.02 PERSONS AND OFFICES AFFECTED
This policy applies to all CARE USA country offices. CARE International Members are encouraged to adopt this document as applicable to their operations and in certain cases, CARE USA may require other CI Members to comply to meet relevant donor regulations.

43.03 POLICY DETAILS

43.03.1 Policy Statements
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.
2. Indirect costs are incurred by CARE USA and other CI Members for services and activities that benefit more than one CO. Indirect costs are usually recovered using fixed rates, i.e. NICRA, ADRET or similar fixed rates negotiated with the donors.
3. CARE USA treats all costs incurred by COs as direct costs. Direct costs that can be easily identified with a program or an award are Direct Program Costs. Direct costs such CO management oversight, administrative and financial services incurred to support all programs and awards implemented in the CO are Shared Program Costs. These costs include personnel costs related to management oversight and shared finance and program support services, rent, utilities, security, janitorial services, office maintenance and other general services or operating costs that cannot be easily identified with a particular program or award.
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 management oversight and general administrative support to all programs and awards in the CO, these costs are treated as SPCs.
5. Every CO should develop a complete Shared Program Cost budget for its operations in the four categories identified in section 43.04.2. This budget should clearly identify those costs charged directly to individual awards based on donor requirements and those costs initially accumulated in a SPC cost pool and subsequently allocated to awards and other funding sources on a monthly basis. The allocation methodology should take into account both direct and allocated SPC charges to produce reasonable and equitable results.
6. CARE USA uses the single factor method to allocate SPC to the awards. Two single factors are allowed: Adjusted Monthly Direct program cost factor, and office space factor.
7. Monthly SPC allocations must be based on actual expense data. Budget estimates must not be used as factors to allocate costs. Shared Program Costs charged directly to awards in accordance with donor agreements needs to be clearly identified in the Country Office financial records. In PeopleSoft, the Category ID field must be used consistently for that purpose.
8. An award must not be charged more than allowed in the approved budget. CO management must review individual donor agreements and IPIAs to ensure that SPC allocations do not violate the terms of the award.

9. CARE USA’s normal rule is that all awards contribute to SPC cost recovery using a fair share basis. If certain donors limit contributions to SPC, CO management is responsible to identify other sources of funding within the same program to cover the SPC funding gap. Some donors may accept to cover a larger amount of SPC than would result from the fair share calculation, to support the achievement of the overall objectives of a particular program initiative. Therefore, SPC that cannot be covered by an award may be covered by other awards or supplementary funding from CARE Member Partners within a program based on agreement from donors. Such agreement must be documented.

10. CARE USA uses unrestricted funds only if restricted funds are unable to cover the full costs of a program. As unrestricted funds are limited resources, COs should negotiate the full recovery of their program costs with the donors and CARE Member Partners, including SPC.

11. COs must maintain adequate documentation to support SPC allocation factors and results.

43.03.2 Responsibilities

It is the general responsibility of CARE USA employees in the following roles to understand and comply with this policy and associated procedures:

- Prepare proposals, manage finance for programs;
- Manage program or budgets, office administration and oversight functions.

Specific roles and responsibilities include:

Finance Controller (or Finance Director or equivalent):
- Prepares the SPC budgets; defines clearly the SPC positions, methodology and factors to be used;
- Prepare monthly SPC allocation forms and provides approved forms to the SSC for table setup;
- Reviews SPC allocations proposed by SSC; discusses results and required actions with CO management.
- Maintains SPC documentation at CO level.

Country Director or his/her designate:
- Approves the SPC budgets, methodology, factors, monthly allocation worksheet and office space cost allocation form; and reviews allocation results;
- Negotiates SPC budgets with donors and CARE Member Partners; approves unrestricted budget allocations to cover SPC gaps.

Shared Service Center (SSC):
- Updates and maintains cost allocation tables and run allocations on behalf of COs;
- Provides allocation results, reports and relevant supporting documents to COs.

43.04 SPC ALLOCATION PROCESS AND GENERAL PRINCIPLES

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

43.04.1 Process Overview

The SPC allocation and cost recovery process works as follows:

1) COs incur two types of direct costs: direct program costs and SPCs;
2) SPCs are charged either directly to the awards based on donor agreement, or accumulated in cost pools and subsequently allocated to awards and other funding sources at the end of the month;
3) SPC allocation is done proportionally to the “adjusted” direct program costs. The direct program costs are adjusted to exclude items such as in-kind commodities, donations in-kind, etc. A list of excluded items is provided in paragraph 43.04.3.1. For SPC such as rent, utilities and similar operating costs, the allocation is done proportionally to the office space occupied by staff;
4) Programs are generally funded by multiple awards. SPC 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.

5) In case an award for which a CARE Member Partner is the contract holder cannot cover its fair share of SPC due to budget limits or other donor restrictions, and no other restricted funding sources exist, the reasonable and necessary SPC funding gap needs to be covered by that CARE Member Partner. This needs to be documented in the Pre-IPIA at proposal stage and in the IPIA when the award has been signed by the CARE Member Partner.

6) CARE USA’s share of the funding gap or non-billable cost is charged to unrestricted funds if not covered by other restricted funding sources.

43.04.2 Standard Cost Pools for SPC

CARE USA uses cost pools as a mechanism to manage SPC better. SPCs are assigned to one of the following standard cost pools:

1. CO Management Oversight (SUSPx0003) to record personnel and other costs incurred by senior positions (e.g. country director) to provide management oversight support to all programs implemented by the CO. In general, these costs cannot be easily identified with a particular program or award.

2. General Administrative support (SUSPx0004) to record personnel and other costs incurred by support staff (i.e. administrators, accountants, procurement officers, etc) to provide administrative and financial services to all programs implemented in the COs. In general, these costs cannot be specifically identified with a particular program or award.

3. Facility cost pool (SUSPx0005) to record the payment of office occupancy costs (i.e. rent, utilities, security, janitorial services, office maintenance and other general services) before proper allocation to the awards is done based on the space occupied.

4. Pamodzi costs (SUSPx0006) to record the fair share of the capital costs, PeopleSoft license and maintenance, Adaptive Planning licenses, Oracle hosting and SSC functional support costs.

The type of work done, not the employee who did it, is a key factor to use in deciding whether a cost is SPC or direct program cost. Some examples:

- **Direct program cost examples**: 1) the personnel cost of a program coordinator is a direct program cost to the program he/she coordinates; 2) the operating costs of a sub-office are direct program costs to the awards implemented in the sub-office; 3) the personnel cost of a financial analyst or sub agreement manager who supports a few specific programs and/or awards is a direct cost, even if he/she is a finance professional and reports to the CO Finance Unit.

- **SPC examples**: time spent and associated costs incurred by a country director to provide CO management oversight, or by the finance director to provide financial management to all awards, or by a program support staff to provide general administration to all awards are SPC. In some countries, some senior program positions may be part time dedicated to specific programs and the remainder dedicated to fulfill a CO management oversight assignment, in which case the latter would be part of SPC to be allocated to all programs.

43.04.3 Allocation Method and Factors

CARE USA uses the single factor method to allocate SPC to the awards. Two single factors are allowed:

- Adjusted Monthly Direct program cost factor, used to allocate CO Management Oversight, General Administrative Support and Pamodzi related costs.
- Main office space use factor to allocate Facilities costs.

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1 This is a mixed cost pool. Refer to section 43.04.3.2 Office Space factor for further clarification.
43.04.3.1. Adjusted Monthly Direct Program Cost Factor

The direct program cost is a straightforward factor commonly used to charge each award its fair share of the costs. The value of the direct program cost factor is adjusted monthly to exclude items not allowed in the basis and to adjust the base amounts for expenditures incurred for sub awards and initiatives implemented by others where CARE acts as an intermediary with more limited fiduciary responsibility (e.g. pass-through).

The following items are excluded from the basis (the exhaustive list of excluded items will be maintained separately from this policy document):

- All in-kind items (e.g. food/non-food commodities, CIK, donations in-kind)
- Local management and administrative support costs and management fees charged by COs through a flat rate mechanism
- One-time expenditure (e.g. one time cash receipt and disbursement for a pass-through program where CARE has some fiduciary responsibility). This type of unusual program activities will be charged a one-time management fee.
- Unrestricted fund allocated to proposal development and disallowed costs.

The expenditures identified below may be adjusted when computing the Adjusted Monthly Direct Program Costs. Country Offices who are using a method to reduce the adjusted basis should document this in the SPC allocation methodology which must be approved by both the Regional Director and their CARE USA HQ Finance manager.

- Sub-recipient expenditures: since the sub-recipient organizations manage the implementation of the sub-award, their staff perform all the general administrative work associated with program implementation. The sub-recipients usually have their own facilities and systems. This means that the activities performed by CARE staff covered by SPC are substantially lower per program dollar spent as compared to programs directly implemented by CARE. Hence, the basis for sub-recipient expenditures (57xx) may be adjusted downward as part of the Adjusted Monthly Direct Program Expenditures (to a minimum of 25% of the actual sub-recipient expenditures).
- The same may apply to other types of implementation arrangements whereby a third party manages the operational aspects of program implementation (e.g. service provider in an electronic food voucher program).

To illustrate the cost allocation method using direct program cost factor, suppose that the total adjusted direct program cost in the current month was $3,000,000 which includes $1,000,000 for Award A and $2,000,000 for Award B. Based on this factor, Award A incurred one-third of the costs and should bear one-third of the SPC. Similarly, Award B incurred two-thirds of the costs and should bear two-thirds of the SPC. Assuming $100,000 SPC in the current month, the fair share amount to be charged to awards A and B is computed as follows:

<table>
<thead>
<tr>
<th>Direct Costs</th>
<th>% distribution</th>
<th>SPC</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Award A</td>
<td>$1,000,000</td>
<td>33.33%</td>
<td>$33,330</td>
</tr>
<tr>
<td>Award B</td>
<td>$2,000,000</td>
<td>66.67%</td>
<td>$66,670</td>
</tr>
<tr>
<td><strong>Total</strong></td>
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<td><strong>100.00%</strong></td>
<td><strong>$100,000</strong></td>
</tr>
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43.04.3.2. Office Space Factor

The facility costs include rent, utility, maintenance/repairs, security, janitorial services or similar costs and are allocated to the awards based on the space occupied. If program staffs are co-located in the office, their shares of facility costs for space occupied are direct costs to their programs or awards. Common space and spaces occupied by CO management and administrative support staff are SPC to be allocated to all programs or awards. Common spaces include the hallway, bathroom, reception area and storage.

To illustrate this allocation method, assume $1,000 monthly office rent and space occupied by staff as follows: country director 12 m2; assistant director/program support 9 m2; admin/finance staff 30 m2; health coordinator 9 m2; education advisor 9 m2; and common area 100 m2. The payment of the rent will be charged to the facility cost pool first, and subsequently allocated as follows:
Note that a portion of the facility cost pool is allocated directly to the health and education programs; another portion is allocated to CO management oversight cost pool and General Administration cost pool. The portion allocated to SPC cost pools will be reallocated to the awards based on the direct program cost factor.

### 43.04.4 Managing SPC funding gap and cost recovery

The fair share amount to be covered by each award is computed proportionally to the Adjusted Monthly Direct program costs. Facility costs are allocated proportionally to the space occupied in the office. Some donors may accept to cover the full costs allocated, or specific portions of the costs (e.g. office rent, utilities), or a higher share of certain Shared Program Costs (i.e. a fixed percentage of certain management oversight or general administrative staff and other shared costs at a lesser rate). Shared Program Costs that cannot be covered by an award need to be covered by other awards or funding sources within a program based on agreement from the donors and CI Members contributing to a program.

CARE USA does not charge the donors more than allowed in the budgets. According to the CI Code, the CI Member who holds the contract will ensure the donor budgets make reasonable and proportionate contributions to SPC, and will provide additional funding to the CO from other funding sources if there is a budget shortfall. Therefore, SPC that are non-billable due to budget shortfall will be covered primarily by the CI Member responsible for the award. The CO will charge its share of the funding gap to unrestricted funds if not covered by other restricted funding sources.

### 43.04.5 Documentation of Cost Allocation

Typical cost pool documentation would include this policy, the values of the cost allocation factors, the methodology and computation of the percentage distribution, and evidences supporting the reviews done by CO management.

### 43.05 COMPLIANCE

Compliance with this policy is mandated unless an exception is approved by the Chief Financial Officer who is the Policy Sponsor. Exception requests must be submitted by the Country Director to the Regional Director for review and concurrence. The Regional Director reviews all requests and coordinates with the Policy Sponsor who has final decision authority.

### 43.07 REVISION HISTORY

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<th>Versions</th>
<th>Dates</th>
<th>Change Notes</th>
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<tr>
<td>3.00 Revision</td>
<td>July 1, 2012</td>
<td>Pamodzi/PeopleSoft implementation</td>
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<tr>
<td>2.00 Revision</td>
<td>July 1, 2010</td>
<td>Policy updates</td>
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### 43.08 APPENDIX: Office Occupancy Cost Allocation Form

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<th>Office Occupancy Cost Allocation Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>Space (m²)</td>
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<tr>
<td>Administration &amp; Finance</td>
</tr>
<tr>
<td>Country Director</td>
</tr>
<tr>
<td>Asst. Director Prog. Supp</td>
</tr>
<tr>
<td>Health Coordinator</td>
</tr>
<tr>
<td>Consultant in Education</td>
</tr>
<tr>
<td>Common area</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>