Implementation Tips *for* USAID Partners

Sharing Resources and Knowledge Among the Global CSO Community

Financial Management 5 | 2018

Definitions

Direct Project Expenses—Goods and services specifically purchased for the exclusive benefit of one project that are charged to that project.

Shared Project Costs—Goods and services used by multiple projects (and for which a vendor cannot invoice each project separately) that are charged to each benefiting project based on a reasonable and consistent manner.

Modified Total Direct Cost—TDCmeans all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel and up to $25,000 of each subaward. MTDC excludes equipment, capital expenditure, charges for patient care, rental costs, tuition remission, scholarships and fellowships and participant support costs.

Negotiated Indirect Rate Cost Agreement—NICRA is a rate negotiated individually between an organization and the USG to cover indirect costs.

References

USAID Best Practices Guide for Indirect Costing

Sharing Costs Across Projects vs. Shared or Indirect Project Costs

Q. We have multiple projects with different funders; how do we account for shared office expenses?

A. An organization with more than one project incurs three categories of expenses:

- **Direct project costs**. Costs that can be clearly attributed to a specific project such as a dedicated staff person, or specific equipment and supplies used only by a single project.
- **Shared project costs**. Costs that are required to carry out a project, but are difficult to attribute to a specific project, such as electricity or administrative support staff or office space used by project staff.
- **Non-project costs**. Legitimate organizational expenses, but costs not related to any specific project or costs that are not "allowable."

Shared Resources vs. Shared Costs

There is an important difference between a resource that may be shared by more than one project and something that is a shared or indirect cost.

A resource that may be shared by more than one project typically falls into the direct cost category. For example, let's think of a professional staff member as a resource that may devote time to more than one project. Since the individual's time is tracked on a timesheet, you will know exactly how many hours were spent working on Project A versus Project B. Therefore, you can allocate the exact number of hours and salary to each project as direct costs.

Another example: If your organization has a vehicle, it may be used for trips by more than one project. However, every trip taken should be noted in the vehicle usage log book. Therefore, the expenses for each trip can be allocated as direct costs to each project based on the log book.

Items to Consider

Q: If we have a NICRA, do we still need to allocate shared costs?

It is tempting to think that having an established Negotiated Indirect Cost Rate Agreement (NICRA) will solve the challenge of allocating shared project costs. A NICRA can simplify how you are reimbursed for your overhead costs in certain USG-funded projects. However, if you have projects funded by other donors you may still have costs that are shared among different donors; thus, regardless of whether or not you have a NICRA, it is a good management practice to establish a policy for allocating shared project expenses.

A shared or indirect cost, on the other hand, is one that has been incurred for common or joint purpose and benefits more than one program. Consequently, it is not easy to allocate these costs to the different programs. Examples of common shared office costs are utilities, Internet service charges and expendable office supplies like paper and paper clips. Unlike the examples above, it is not obvious how much should be charged directly to any one project.

Some organizations that are prime recipients and receive USAID funding directly have gone through a process with USAID to establish a Negotiated Indirect Cost Rate Agreement (NICRA) and use that to address these kinds of costs. But most organizations do not have a NICRA (or only have a NICRA for headquarter expenses) and, therefore, need a method for figuring out how to allocate these kinds of costs.

Set—and Keep up to Date—a Shared or Indirect Cost Policy

Keep these guidelines in mind when setting a policy that answers the following questions:

- What specific costs and resources are considered "shared?"
- How will your organization divide shared costs among different projects?
- When will the formula be reviewed and revised?

Sample Formula for Calculating Shared Expenses

Costs that cannot be attributed to one project or another as a direct cost will need to be addressed by establishing a formula. One approach is to use a percentage based on the number of employees on one project vs. the total number of employees or the allocation of dedicated office space.

To do this, first figure out what parts of your office are dedicated to a specific project, such as space for dedicated project staff, and what parts are shared, such as meeting rooms or the reception area. Of the areas that are dedicated to specific projects, calculate the square meters allocated to each project. You can even divide the office space of an individual who splits time based on the percentage she or he allocates to each project. Add up the area dedicated to each project and calculate the percentage dedicated to each project.

For example, let's say a 1,000 square meter office houses two projects; 800 sq. meters of office space is dedicated to the projects, while the rest is shared. Of the dedicated space, 600 sq. meters is for one project, while 200 is for the other project. This means 75 percent of the overall space is charged to the first project (750 square meters), and 25 percent to the second (250 square meters). These percentages may also be used as the basis for allocating costs for other shared expenses.

For More Information

For this or other issues of *Implementation Tips*, please visit www.NGOConnect.net. The Web site is a dynamic and interactive portal dedicated to connecting and strengthening CSOs, networks and CSO support organizations worldwide.

Funding for this publication was provided by the U.S. Agency for International Development, under the Strengthening Civil Society (SCS) Global Leader Award. Its contents, managed by SCS Global, do not necessarily reflect the views of USAID or the U.S. Government.

© 2018 by FHI 360. This publication may be photocopied or adapted for noncommercial use only, without prior permission, provided credit is given to FHI 360, SCS Global and USAID.

There is no single correct method for allocating shared costs, but it should be clear how your organization handles these costs. This helps to ensure that your project funds are used wisely and that you are distributing costs fairly. And do not forget, as projects and funding streams change, you should adjust your policy accordingly.

Multiple Office

If your organization has offices in several different locations, you may want to set some general guidelines and have each office set its own specific policy based on the projects and expenses at that location. The policies should be in writing because during your annual audit, the auditors will review and compare your policy with your practice. Some projects that share offices set a formal Memorandum of Understanding that includes detailed agreements on additional topics, such as shared assets, payroll and human resources issues. This is especially common when the separate "project teams" come from different operational units or are from completely different organizations.

What is the de minimis rate and when can I use it?

If an organization has never received a NICRA, the organization may elect to charge a *de minimis* rate of 10% of modified total direct costs (MTDC), and this can be used indefinitely. The organization must ensure that it is consistent in charging costs as direct and indirect.

Am I ever able to charge indirect costs as a fixed amount?

If an organization has never received a NICRA, or never chosen the 10% de minimis rate and the indirect costs are not included as direct costs in the budget, then indirect costs must be charged as a fixed amount and shown as a separate line item in the budget. In this case the award will specify the categories that are covered by the fixed amount and the organization cannot charge these costs separately as direct costs. The organization must account for the expenses in its accounting system (general ledger) because if there is a 20% variance, USAID can seek reimbursement of the variance. If less than 20%, there is no adjustment.