



# COST ALLOCATION/COST SHARE POLICY

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Presented by :

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OMONGO NDUGU

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on this 10th day of February 2020

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## 1. INTRODUCTION

UPDN is a local Non-Governmental Organization, and has been working in the field of social development work in Uganda since 2016. UPDN aims at supporting and working with local communities, Civil Society Organizations and government to foster the road safety, driver welfare, health promotion, and knowledge management.

UPDN is a non-governmental organization registered under the Uganda NGO Registration Act and operating in Uganda. The organisation is also registered as a Company Limited by Guarantee and Not Having Share Capital under The Companies Act No. 1 of 2012, accompanied with Articles of Association (registered in 2016), which actually form the organisation's constitution.

- *Vision*

To be a center of excellence in development of professional driving industry in Uganda

- *Mission*

Professional driving industry for improved road safety

- *Core Values*

1. Professionalism
2. Accountability
3. Team work
4. Non - discrimination

### 1.1 PURPOSE OF THIS POLICY

The purpose of the UPDN cost allocation policy is to assist in allocation of both direct and indirect costs and to summarize, in writing, the methods and procedures that UPDN will use to allocate costs to various programs, grants, contracts and agreements.

In preparation of this policy, we have found it helpful to reference, OMB Circular A-122, as it pertains to Direct Allocation methods. This Direct Allocation Method treats all costs as direct costs except general administration and general expenses. Direct costs are those that can be identified specifically with a particular final cost objective while indirect costs are those that have

been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective.



### 1.1.1 PRINCIPLES OF THIS POLICY

The general principles of UPDN in allocating costs to particular grants and contracts are as follows:



#### For cost allocation:

- Directly charge to programs, grants and/or specified activities and in case of research grants all allowable direct costs.
- Individually prorate allowable direct costs that can be identified with more than one program using a percentage allocation based on reasonableness and equity.
- Take whichever is greater and cost efficient of either applying a percentage charge on allowable costs in which case the organization would have to negotiate an Indirect Cost Recovery rate with the donor or directly list all allowable direct costs in the budget.
- For any project exceeding 12 months, UPDN will unless otherwise specified, automatically provide for not less than 15% for indirect costs. Management will endeavor to negotiate with donors on these rates and seek agreements. Indirect costs once recovered may at the discretion of the Executive Director be deposited in a reserve fund.
- Calculate percentage charge to project staff providing a level of effort; and similarly direct and indirect cost percentiles will to the greatest extent possible represent the overall contribution of this project to UPDN's portfolio.
- Allocate all other allowable general and administrative costs such as those pertaining to UPDN office that cannot be easily identified to a particular project, across the UPDN grant portfolio in an equitable manner.

#### For Cost Share:



- Identify resources, infrastructure and supports which can directly contribute to the realization of intended project goals and objectives for which cost share is sought. This will include training manuals developed for specific project use. Existing manuals, posters and other program literature may be adapted for use in new projects.
- Since UPDN's cost share comes mostly in form of selected trainings from UPDN's training program, the Program Manager will ensure that trainers are selected ahead of time and are committed to meeting this obligation.

- Resources once allocated to a project as cost share will be ring fenced for this specific project and will not be recommitted to another project for the purpose of cost share.
- The responsibility of projecting and accounting for cost share will lay with the Finance Manager. Costs share reports will be prepared on a quarterly basis.
- Movable assets provided as cost share may still be charged as direct costs to the project. For example where UPDN provides a vehicle or motorcycle for project use, it may still include costs of maintaining such an asset to the project.
- The cost of such assets will be ascertained from UPDN's inventory for that year taking into account provisions for depreciation and/or reasonableness of price based on market estimates.  
- Where personnel time is included as cost share, the Finance Manager and budget holder will ensure that this level of effort is based on realistic allocations of staff time. Staff can provide a level of effort computed as cost share on more than two projects.
- It is known that certain staff will normally work beyond hours, putting in extra hours even on weekends to catch up on their responsibilities. Staff especially those on cost share are encouraged to commit as much time as required to meet their obligations.

## 2 Steps in Cost Allocation

In a bid to successfully allocate costs, UPDN will establish an allocation system that is fair, equitable, and supported by current expenditure levels. In particular, the cost allocation system will:

- Identify expenditures whose costs are to be shared with the new project.
- Establish the percentage attribution of this project to the overall UPDN portfolio. For example if UPDN has a portfolio of 8 projects, each of these projects will contribute at least one 1/8<sup>th</sup> or equally of overhead costs.
- Use this percentage to allocate the costs based on realistic consumption and expenditure patterns.
- Once costs have been allocated, the Finance Manager and budget holder should work closely to ensure that such costs are recovered within the period they are allocated. This may require that such costs are placed into a pool account where such an account has been dedicated.  
Update and monitor spending habits to ensure that such costs remain realistic, fair and equitable over the life of the project.

## **2.1 Guidelines on Shared Costs and Cost Share**

All costs will be subjected to the same UPDN accounting and financial management policy provisions as ordinary costs. For example all procurements will be subjected to procurement guidelines prior to payments being made. The following section provides some guidelines on how cost share and shared costs will be managed by UPDN.

### **2.1.1 Compensation for Personnel costs**

This will be accounted for using timesheets showing time distribution for each employee and allocated based on time spent on each project. Salaries and wages are charged directly to the program for which work has been done based on the percentage amount of time worked for the program or grant as calculated on the timesheets.

Costs that benefit more than one project will be allocated to those projects based on the ratio of time worked to the project. Fringe benefits (10% NSSF, medical insurance, gratuity and Worker's Compensation) will be allocated in the same way as salaries and wages.

### **2.1.2 Travel Costs**

Travel costs will be allocated based on purpose of travel and in compliance with the travel policy. All travel costs (local and international) will be charged directly to the program for which the travel is incurred. Travel costs that benefit more than one project will be allocated to those projects based on the ratio of time worked for each project. A Trip report will accompany such accountability showing purpose of travel.

### **2.1.3 Payments for professional services**

Payments for consultants, accounting and other software and auditing services; program evaluations and other such services will be anticipated and budgeted for ahead of time. Costs that benefit more than one project will be allocated to those projects based on the ratio of each projects expense to the total of such consultancy expenses.

### **2.1.4 Sundries, Office Expenses, stationery and Supplies**

Allocated based on usage. For example research project may have much smaller budgets yet require a lot more working space. Expenses used for a specific project will be charged directly to the respective project budget. All projects will contribute towards the annual budget for managing such costs. Each project will be charged based on its prorated contribution to the annual budget and/or the ratio of these project costs to the annual budget and frequency of support and work processing demanded of the organization.

### **2.1.5 Printing including general office supplies, equipment maintenance and repair**

Such expenses will be charged directly to projects that benefit from the service. Costs that benefit more than one project will be allocated to those projects based on the ratio of each projects expense to the total annual budget for such costs. Costs that benefit all projects will be allocated based on the ratio of each projects budget to total annual expenses.

### **2.1.6 Insurance**

Insurance needed for a particular program is charged directly to the program requiring the coverage. Other insurance coverage that benefits all programs is allocated based on the ratio of each program's budget to total expenses.

### **2.1.7 Utilities, Telephone and other Communications**



Communication expenses are charged directly to programs to the extent possible. Long distance and local calls are charged to projects if readily identifiable. Other telephone or communications expenses that benefit more than one project will be allocated to those projects based on the level of intensity and demand and the ratio of each program's expenses to the total of such expenses. Costs that benefit all projects will be allocated based on the ratio of each projects budget to total expenses.

### **2.1.8 Facilities such as office space, storage space and related expenses**

This category of costs will be allocated based upon usable square footage or room size occupied whichever is easily ascertainable. For example if UPDN occupies an 8 room office block and a project takes 3 rooms, the charge will be calculated on the ratio 3:8. If a project occupies a room shared with another project, then total square footage may be applied. However utility bills and security charges will be determined based on reasonableness.

### **2.1.9 Training/Conferences/Seminars**

Where a workshop is organised for all UPDN staff either as part of team building or capacity development, a unit cost for conference costs will be ascertained and the respective projects charged what is due to them. In some cases, authorisation may be required from the donor prior to making such payments especially where such costs were not initially anticipated and budgeted.

### **2.1.10 Other Costs not assigned**

Cost allocation and cost share may not comprehensively capture all costs associated with running a project. This clause therefore permits management to apply the principle of



reasonableness when ascertaining such costs. However once ascertained, such costs must be shared with and declared to the donor for concurrence and assent. Similarly where UPDN realises a lot more cost share than earlier anticipated in one period, the Finance Manager will in this case engage his donor counterpart to agree on new relocations.



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<sup>1</sup> Also known as matched grant, own budget support and budget contribution, cost share will be used in this context to mean UPDNs contribution in form of financial, material, infrastructure and/or technical resources put forward to support project costs.