



Cost Allocation

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COST ALLOCATION PLAN INDEX

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AFROHUN COST ALLOCATION

1. Purpose/General Statement

1.1 Policy Statement

Shared costs are expenses that can be allocated to two or more departments, donors, or projects on the basis of shared benefits. These costs include but are not limited to utility bills, telephone and internet charges, cleaning services, security, fuel costs, office rent, building and equipment repair and maintenance costs, audit, legal and compliance costs. This policy is aimed at ensuring that such costs are equitable allocated across programs, projects, and departments. This policy also gives the criteria to determine allowability of costs.

1.2 Purpose

To provide a rationale or basis for apportionment and absorption of these shared costs to the different cost centers (projects) for a fair cost to be charged to each project and ensure recovery of all AFROHUN administrative costs. Also, to ensure consistent usage of AFROHUN's cost accounting practices to prevent unallowable costs and double charging of costs on grants or contracts.

1.3 Scope

This policy and procedures apply to all employees who manage, supervise or conduct AFROHUN's business or financial transactions or activities using donor funds.

It applies to all donor agreements. However, the costs identified as "normally indirect" may be directly charged to a project if permitted by the donor's policy or otherwise approved by the donor. For this purpose, a donor agreement includes donor funds received directly by AFROHUN as well as sub awards to other organizations.

1.4 AFROHUN Guidelines

Four guiding principles or criteria from the applicable guidelines shall be used to determine whether a cost can be charged to a donor. These criteria apply for both direct and indirect costs, which are defined below. For a given cost to be charged to a donor, all four (4) of these criterial must be met.

1.4.1 Reasonableness- For a cost to be considered reasonable, it must be:

- (i) Recognized as necessary for the operation of AFROHUN or the performance of the Agreement.
- (ii) Consistent with the requirements imposed by arms-length bargaining, donor or state laws and regulations, and ethical business practices, and
- (iii) Related to an action and /or in an amount deemed within the norms of business conduct (i.e. passes the "prudent person" test).

1.4.2 Allocability- For a cost to be considered allocable, it must:

- (i) Be incurred solely to advance the work under a donor agreement, or
- (ii) Benefit both the donor and other work of the institution, in proportions that can be approximated through the use of reasonable methods and
- (iii) Be assignable to the benefiting activities without undue effort or cost.

1.4.3 Allowability- For a cost to be considered allowable it must:

- (i) Not be designated as “unallowable” under applicable donor guidance.
- (ii) Adhere to donor- specific policies and award-specific terms and conditions regarding specific items of cost, and
- (iii) Adhere to AFROHUN policies regarding cost definitions.

1.4.4 Consistency - For a cost to be considered consistently treated.

- (i) It must be treated in the same manner (i.e. either as direct or indirect) in like circumstances
- (ii) Certain type of costs like office expenses and supplies, printing, direct charging of administrative salaries are normally treated as indirect costs unless the circumstances related to a particular project are clearly different from the normal operations of the institution.

1.4.5 Other guidelines

- (i) All projects and objectives should meet their fair share of costs towards the AFROHUN administrative expenses. This is normally through their indirect cost charge or directly charged against the specific project budget heads where the projects do not give an indirect cost.
- (ii) All projects are assigned a unique code for use of central administration services or shared costs
- (iii) The Head of operations or designate working with the Senior Accountant shall determine the applicable cost base for cost recovery and adjustments shall be made to the allocation bases when a new project begins, or an ongoing project ends in the course of the year.
- (iv) Head Finance shall send monthly consumption reports in excel and corresponding costs to departments which shall be approved by respective budget holders before a project is charged and this will be done on a monthly basis for central administrative expenses
- (v) Once these are reviewed for accuracy and reasonableness the fee notes/bills will then be processed where each project will recognize the expense and a corresponding payable (liability) to AFROHUN raised. AFROHUN will recognize a receivable from the respective project.

Below is a summary of allocation bases for shared costs:

Shared Costs	Basis of Cost Allocation
1. Office space/ facility	The cost allocation will be based on areas (sq. meter) occupied by each project or based on head count for the respective projects multiplied by the rate per sq. meter, whichever may be most applicable
2. Electricity & Water bills	To be allocated based on head count under each project
3. Telephone and internet usage	To be allocated based on actual usage per staff. For internet shared services e.g., server maintenance, cost allocation shall be based on head count per project
4. Cleaning, Maintenance & Security services	To be allocated based on floor space occupied by each staff / project per month/ quarter apportioned across the different projects for the specific monthly bill or based on head count whichever may be most applicable.
5. Fuel, Motor vehicle repairs & maintenance costs (for pooled vehicles)	To be allocated based on the proportion of usage / recorded mileage for each project.
6. External audit and other outsourced services/consultancy services	This will be apportioned based on the annual AFROHUN income budget across the different projects which indicates the volume of transactions to be reviewed / audited at the end of each financial year.

1.5 AFROHUN procedures in determining unallowable costs.

Ref	Process	Identification of Unallowable costs	Responsibility
		Description	
1.5.1	On receipt of supporting documents When the requisitions and all relevant supporting documents have been prepared, they are checked for completeness, accuracy and inclusion in the approved workplan and budget.		Country administrator (country office) or Accountant (Secretariat)
1.5.2	If the costs are not in the approved budget/ work plan, prior approval is sought from the donor/AFROHUN management /board before incurring the expense.		Regional Program Head/ Regional Manager finance and Administration
1.5.3	Donor/Project related costs Once the activity 1.5.1 is completed, costs are submitted and checked for allowability based on donor specific requirements and the agreement signed.		Senior accountant
1.5.4	If the cost is not in the approved budget/workplan and has already been incurred, it will be posted on 5900 unallowable expenses in the GL.		Senior Accountant
1.5.5	If the costs are allowable per donor guidelines, they are then checked for reasonability and allocability and signed off to		Senior Accountant

	confirm this check.	
1.5.6	If the costs are not allowable per donor guidelines, additional approval may need to be sought from the donor depending on the nature of the costs.	Regional Program Manager/ Regional Finance and Administration Manger
1.5.7	Costs that have met the criteria in 1.5.5 and 1.5.6 (approval from the donor) are then reviewed to confirm whether they need additional approval.	Head of Finance
1.5.8	The costs meeting the above criteria are approved by Senior Accountant and posted in the general ledger by the accountant.	Senior Accountant/Accountant
1.5.9	The costs not meeting the above criteria in 1.5.5 – 1.5.7 are posted to 5900 Unallowable expenses. If a cost is not clear whether it is unallowable, such costs are posted on 5920 Questioned expenses in the GL as they are being reviewed further.	Senior Accountant

2. Detailed description of shared costs

2.1 Salaries and Wages

- (i) Direct Costs- The majority of AFROHUN’s employees directly charge their salary costs since their work is specifically identifiable to specific grants, contracts or other activities of the organization such as providing services to members, fundraising, or lobbying. The charges are supported by auditable time records which reflect the actual activities of employees
- (ii) Indirect Costs- Most of the senior management team and the central core positions at AFROHUN charge their salary cost to grants or projects indirectly. This is by way of actual level of effort attributed to the grant or contract. In addition, some grants allocate an indirect cost charge which compensates the organization for administrative / operational costs or shared support services. The regional finance and administrative manager should review AFROHUN’s indirect cost rate every three years to ensure AFROHUN sufficiently recovers its operating costs.
- (iii) Mixed Charges- Some employees charge a part of their level of effort directly to a grant or contract when functions are specific to it and distribute the other part indirectly when the positions shown are performing functions that are necessary and beneficial to all programs.
- (iv) Auditable time records which reflect the actual activities of employees are maintained to support the mix of direct/indirect charges. The time records are certified by the Human resources head.

- (v) AFROHUN pays for leave days as stipulated in the Human Resource manual Sec 4.2. Staff leave days are distributed across the project based on the percentage of hours worked on each project in that month.

In general salaries and wages for AFROHUN are based on documented with timesheets showing time distribution for all employees and allocated based on time spent on each program or grant. Salaries and wages are charged directly to the program for which work has been done.

2.2 Fringe benefits

- (i) AFROHUN contributes to the following fringe benefits for item employees: Social Security /pension contribution, workman’s compensation, and medical insurance.
- (ii) AFROHUN’s accounting system tracks fringe benefit costs by individual employee and charges those costs directly or indirectly in the same manner as salary and wage costs are recorded. For planning/budgeting these costs are provided for using rates that are established by law (statutory) and historical figures from experience over the years.

2.3 Travel and Transportation

Travel costs are charged either as a direct charge or an indirect charge depending upon the predominant purposed of the trip. Costs incurred for travel are supported by auditable travel vouchers and costs are limited to those allowable under the specific donor travel regulations, unless expressly allowed by a contract or grant.

2.4 Supplies & Services

- (i) To the maximum extent possible, supplies and services including office supplies, communication, Data and Internet services, are directly charged to the contract/grant which uses the supplies and services. Supplies and services used by staff who are engaged in indirect activities will be charged on an indirect basis.
- (ii) Generally, costs that benefit more than one program will be allocated to those programs based on the ratio of each program’s expenses to the total of such expenses. Costs that benefit all programs will be allocated based on the ratio of each program’s expenses to total expenses.

2.5 Occupancy Expenses

Rent- AFROHUN occupies space that is rented. The monthly rental costs are allocated, based on square footage or head count for staff working on a project for that particular period, directly and indirectly as follows:

- (i) Direct Costs- The cost of space occupied by staff whose salaries are charged to costs directly.

- (ii) Indirect Costs- The cost of space occupied by staff whose salaries are indirectly charged is charged indirectly. The cost of space for staff whose salaries are charged on a mixed basis will be allocated on a mixed basis in the same ratio as their salaries are allocated
- (iii) The cost of space required for common rates (hallways, restrooms and the conference room) will be accounted for as an indirect cost.
- (iv) AFROHUN has developed a floor plan which identifies what areas are designated as direct and indirect charge space (based on square footage)

2.6 Utilities

The cost of electricity and water which are the main utilities for AFROHUN are charged directly and indirectly in the same ratio as its space costs are charged.

2.7 Communications

- (i) Telephone service costs are prorated to direct and indirect charge based upon the number of telephone instruments assigned to AFROHUN. Each telephone instrument is identified to either an indirect or direct staff.
- (ii) Other telephone or communications expenses that benefit more than one program will be allocated to those programs based on the ratio of each program's expenses to the total of such expenses. Costs that benefit all programs will be allocated based on the ratio of each program's expenses to total expenses.

2.8 Printing and Publishing

- (i) AFROHUN maintains a photocopy activity log. From this log, AFROHUN is able to prorate its photocopy expenses to each program based on the specific volume of copies made for each program.
- (ii) Administrative personnel will record copies made to the benefiting program to the maximum extent practical. In situations where photocopies being made by administrative personnel cannot be identified to a specific program and the matter being copies relates to the activities of AFROHUN in general, the cost of such copies will be charged to the "Indirect Cost expense" account.
- (iii) Printing expenses are charged to the benefiting activity

2.9 Outsourced Services

- (i) AFROHUN incurs outside service costs for its annual audit, legal fees, and for staff development specialists. The cost of the annual audit is charged indirectly. In general, legal fees are charged directly to the benefiting program or activity. Legal fees that are not identifiable to specific direct programs e.g. retainer fees are charged indirectly.
- (ii) All other professional service costs are charged directly to the program for which the service was incurred. Costs that benefit more than one program will be allocated to those programs based on the ratio of each program's expenses to the total of such expenses. Costs that benefit all programs will be allocated based on the ratio of each program's expenses to total expenses).

2.10 Equipment

Equipment - AFROHUN does not capitalize any assets since these assets relate to different donors. The cost of equipment is therefore charged directly to the program it relates to.

2.11 Training conferences and seminars (participant support costs)

Allocated to the program benefiting from the training, conferences, or seminars. Costs that benefit more than one program will be allocated to those programs based on the ratio of each program's expenses to the total.

2.12 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 expenses to total expenses.

2.13 Unallowable Costs

Unallowable costs and activities must be identified and excluded from any billing, claim or proposal submitted to the donors. Unallowable costs must be classified using the appropriate expense account, which is excluded when preparing donor reports. The allowability of a cost shall be determined by AFROHUN and any other donor specific requirement as may be specified in agreement.

2.14 Questioned Costs

Questioned costs are either ineligible or unsupported costs. These costs are tracked in a separate general ledger account (5920 questioned expenditure) until fully resolved.