

What is functional expense allocation?

Functional expense allocation means an entity uses distinct cost centers to record program and management functions. Each cost center has the specific expense account line items required for the cost center to perform its functions. Cost centers are often assigned to grants and contracts which fund programs.

Every entity develops a written cost allocation plan, explaining in detail the methodology used for allocating various types of costs. The plan also explains which costs are allocated as direct costs and which costs are allocated as indirect costs. Clear allocation of functional expenses is important to ensure federal funds are used only to reimburse allowable activities.

What is a direct cost?

A direct cost is one which can be readily identified as benefiting a particular program or cost center. For example, costs directly associated with a specific grant or contract may include direct labor salaries/wages and allocable fringe for the program's employees, travel of those employees as well as their program supplies, postage, printing, communications, equipment, rentals, and other costs directly associated with the program.

What is an indirect cost?

Indirect costs are those which cannot be readily identified as benefiting a specific program or cost objective. Indirect costs cannot be allocated on a basis that is equitable in consideration of the relative benefits a cost center receives. These types of costs, such as general facilities expenses, administrative salaries, telephone expenses and utilities are combined into an "indirect costs pool."

What is a negotiated indirect cost rate agreement?

Any entity with a cost allocation plan which clearly describes its indirect cost pools can prepare an indirect cost proposal to its "cognizant agency." The cognizant agency is usually the federal agency which provides the most funding to the entity. After an entity submits a proposed indirect cost rate, the cognizant agency negotiates an annual agreement for an indirect rate which can be applied to all direct costs when the entity seeks reimbursement for federal grant expenses. The cost rate negotiated results in a fair allocation of indirect costs to the federal government.

Resources

- ◆ [2 CFR 200 Subpart E Cost Principles](#)
- ◆ [2 CFR 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards](#)
- ◆ [DOJ Grants Financial Guide](#)



The **OVC Tribal Financial Management Center (OVC TFMC)** provides **training, technical assistance, and resources** to support American Indian and Alaska Native communities as they successfully manage the financial aspects of their federal awards. OVC TFMC also offers support via our Virtual Support Center (VSC) to Office for Victims of Crime (OVC) grantees and those seeking federal funding from OVC for the first time. **Email questions or requests for grant financial management technical assistance to TFMC@OVCTFMC.org** or call **703.462.6900**. Visit OVCTFMC.org for additional resources and information.

Feedback Requested

OVC TFMC will continually work to provide resources to support grantees as they successfully manage their OVC financial awards. Your feedback assists us in creating these resources to meet your needs. To help us provide the most useful resources, we would appreciate your feedback on this guide sheet. Please send any comments or suggestions to Evaluation@OVCTFMC.org.

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