



COMMONWEALTH OF VIRGINIA
DEPARTMENT FOR AGING AND REHABILITATIVE SERVICES

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Commissioner

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MEMORANDUM

TO: Executive Directors
Area Agencies on Aging

FROM: Tim Catherman

DATE: October 1, 2012

SUBJECT: Policy Update – Cost Allocation Plan – Quarterly Reconciliation

As you know, an agency is required to have a Cost Allocation Plan if shared costs (often called indirect costs) are allocated to two or more federal programs. The plan must be written and approved by Management. The general requirements for nonprofit organizations are found in [OMB Circular A-122](#). For local governments, the requirements are found in [OMB Circular A-87](#). More specific requirements are found in the [HHS Grants Policy Statement January 2007](#) on Page 96.

The Cost Allocation Plan should state: 1) its purpose, 2) allocation methodology, 3) how costs are allocated monthly, 4) a quarterly reconciliation process, and 5) the annual process for reviewing the methodology. A model cost allocation plan that provides a good example of the first three items can be found at [Sample Non-Profit Cost Allocation Plan](#).

This Policy Update highlights the importance a quarterly reconciliation. During a recent federal audit of the Title V SCSEP program, we were reminded of the need for AAAs and other contractors to perform a quarterly reconciliation. Below are excerpts from OMB A-87.

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that.... at least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made.

Agencies are reminded that they must, during the quarter-end close process, make adjustments to allocate quarterly costs to reflect actual and current data instead of budgeted data.

If you have any questions, please call Solomon Girmay at (804) 662-9347 or myself.