

## SAM-ALLOCATION OF COSTS

### ALLOCATION OF COSTS – INTRODUCTION

9200

(New 03/10)

This section describes the methodology and required documentation for the allocation of departmental costs to their program budgets. All budgets are required to be in a program appropriation format. Any budgets remaining in a category format must be approved by the [Department of Finance](#). Departments with budgets in a category format must convert traditional line item costs to the required program budget levels as displayed in the Governor's Budget. Refer to SAM Sections [8752-8757](#) for information regarding Indirect Cost Rate Proposals (ICRPs) or cost allocation plans (CAPs) for departments that receive federal funds.

Costs with one or more characteristics in common are accumulated into cost pools. Cost pools are then assigned to one or more programs. Costs assigned to a program are either direct or indirect. Refer to SAM Section [9205](#) for information regarding time reporting.

Direct costs are costs that can easily be identified to a program. Examples of direct costs are personal services for project staff, consultants, travel, and training.

Indirect costs do not have a direct relationship to the program and are assigned through the use of a formula. Examples of indirect costs are costs for administration and legal units, utilities, and rent.

Personal services and operating expense and equipment (OE&E) can be either direct or indirect costs. Personal services and OE&E for administration are indirect costs, but Personal services for program staff are direct costs. Materials purchased in bulk are typically handled as indirect costs, while materials required for specific projects are charged as direct costs. Some OE&E costs, e.g., telephone costs, may be direct or indirect costs.

Some organizational units, e.g., information systems, data processing, and reproduction, etc. provide services to other units in the department. These service units differ from the staff support organizational units (e.g., accounting, budgeting, personnel, etc.) in that they have readily measurable products. Service unit costs may be direct or indirect depending on how their costs are allocated.

Regardless of the type of cost, all costs should be allocated according to the most equitable basis practical. Also, costs should be allocated consistently throughout the fiscal period.