

SAM-ALLOCATION OF COSTS

ALLOCATION OF INDIRECT COSTS

9202

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Cost allocation is the assignment of indirect costs to one or more programs according to a formula. Indirect costs are assigned to the programs they benefit according to the methodology that represents a reasonable and equitable distribution.

The following should be considered when developing a cost allocation process:

1. **Timeliness**—The cost allocation process must produce program cost data on a timely basis.
2. **Consistency**—The cost identification and distribution methods selected must be applied consistently throughout the accounting period.
3. **Accuracy**—The information provided shall be as accurate as possible.
4. **Audit Ability**—Program costs must be fully auditable; i.e., working papers or system documentation must be retained showing program cost identification, accumulation, and distribution methods.

There are many ways to distribute indirect costs. Some departments may use one method for a specific type of cost, while others may use another method for the same type of cost. [9202 Illustration](#) displays three of the most common methods of distributing indirect costs.