



# State of Arizona Accounting Manual

Topic 10 Accounting and Reporting  
Section 20 Cost Allocation Plans

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## **INTRODUCTION**

This section of SAAM is organized a bit differently from most of the other sections. That is because this section of SAAM does not consist of enumerated policy statements; rather, this section of SAAM is a primer dealing with certain concepts, terminology and principles used by the State of Arizona in accounting for financial transactions.

Cost allocation is a method by which indirect costs (frequently referred to collectively as overhead) are distributed or allocated to different cost centers, such as agencies, divisions, or programs. Indirect costs are those elements that are necessary in the performance of a service or activity but are of such a nature that the specific amount applicable to the service or activity cannot be easily divided.

## **Background**

[2 CFR Part 200](#), also known as the “Uniform Guidance,” (requires that a Cost Allocation Plan be submitted for all governmental units that bill Federal awards. There are three types of Cost Allocation Plans:

1. The first type is the Statewide Cost Allocation Plan (SWCAP) which is prepared annually by the GAO. The SWCAP identifies and allocates the costs of goods and services provided by support agencies among those operating agencies receiving Federal grant or contracts.
2. The second type of plan is an Indirect Cost Proposal (ICP). An ICP distributes the administrative or indirect costs incurred within a grantee agency. The ICP may include the costs allocated to the agency by the SWCAP to those units or programs that perform the work of the agency.
3. The third plan type is the Public Assistance Cost Allocation Plan (PACAP). The PACAP is required in lieu of the ICP for federally-financed state public assistance agencies that are funded predominately by the U.S. Department of Health and Human Services. Major federally-financed programs typically administered by state public assistance agencies include TANF, Medicaid, Food Stamps, Child Support Enforcement, Adoption Assistance, Foster Care, and Social Services Block Grant.

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## Federal Guidelines

Specific instructions for the preparation of cost allocation plans are determined by the Federal cognizant agency (the U.S. Department of Health and Human Services) that oversees the accounting and financial reporting related to federal grants. Cost allocation plans typically contain the nature and extent of the services provided and relevance to the federally sponsored programs, items of expense to be included, and the methods to be used in distributing costs. For general information, refer to Appendix V to Part 200 for the SWCAP, Appendix VII to Part 200 for the ICP, and Appendix VI to Part 200 and Subpart E of 45 CFR Part 95 for the PACAP.

## Statewide Cost Allocation Plan

The GAO has the responsibility of preparing, submitting, and negotiating the SWCAP. When the SWCAP is approved by the Federal cognizant agency, the GAO sends the plan to all agencies concerned. The approved documents are also published on the GAO website at <https://gao.az.gov/financials/swcap>.

Failure of the State to submit a SWCAP could bar the recovery of central services costs (either billed or allocated) and indirect costs as a charge to Federal grants and contracts. The SWCAP is due to the Federal cognizant agency 6 months after the end of the fiscal year, or by December 31 of each year.

## Indirect Cost Proposal

The ICP is prepared by those agencies charging Federal grants or contracts. Each grantee agency is responsible for the submission of the ICP to its applicable Federal cognizant agency by December 31 of each year.

## Public Assistance Cost Allocation Program

When required, a PACAP is a narrative description of the procedures used by a State public assistance agency to identify, measure, and allocate costs incurred in support of the programs administered or supervised by the State agency. Each grantee agency is responsible, if applicable, to submit the PACAP to its cognizant agency.