

Cost Allocation Series Article Three – Indirect Cost Pool

Note: the following article is based on an allocation procedure where the actual indirect cost rate is used rather than a fixed rate.

The third pool that is included as part of the basic GMS Accounting and Financial Management System is the Indirect Cost Pool. The Indirect Cost Pool is a way to allocate your agency's costs associated with common costs and central organizational functions that are necessary and beneficial to all programs. As with the Leave and Fringe Benefit pools discussed in the previous two month's newsletters, how the base is defined plays an integral part in determining how the indirect costs are allocated to programs. *Note: The base set up in the GMS system should be as defined in your organization's current indirect cost plan. This is imperative in order to keep you in compliance with your plan.* Please refer to the Help Manual under Tools\Cost Allocation Setup\Indirect Cost Allocation for instructions on setting up your base in the software.

When an expense is coded to the indirect cost pool, an element within the range 999000 – 999900 is used. (These are control accounts in the GMS system and cannot be changed.) These expenses are collected in the indirect cost pool, then allocated to programs on an **agency fiscal year-to-date** basis.

To calculate the indirect cost rate, the system looks at the total YTD indirect costs and calculates a ratio of those costs against the organization's YTD indirect cost base. For example, if at a given month the total YTD indirect costs were \$75,100 and the total base for distribution was \$420,050, that ratio would be $\$75,100/\$420,050$ or .1788. (An example of an Indirect Cost base would be total direct charged salaries, allocated leave and fringe benefits.)

That ratio would then be applied to the base on all receiving elements. So if an element has a base amount of \$94,000, the indirect cost amount charged to that element would be $\$94,000 \times .1788$ or \$16,807. The allocated indirect cost amount will appear on line item 59700 Indirect Costs. This is a control account in the GMS software and cannot be changed.

Watch for the January, 2017 GMS Newsletter for the next article in the Cost Allocation Series – Cost Allocation Summary. This article will tie together the first three pools discussed in this series!