

Maryland Governor's Grants Conference

Cost Allocation Plans and Indirect Cost Rates

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Defining Indirect Costs



- Costs that are “incurred for a common or joint purpose benefiting more than one cost objective, and not directly assignable to cost objectives benefited without effort disproportionate to results achieved.”

Basic Guidelines

Allowable Costs

To be allowable, costs must meet the following general criteria:

- Necessary & reasonable for proper & efficient performance of Federal programs
- Be allocable to Federal awards under provisions of this Circular
- Be authorized & not prohibited by State or local laws or regulations
- Conform to limitations imposed by any other Federal FFP regulations
- Be consistent with policies that are uniform for both federally assisted & other activities
- Be accorded consistent costing treatment
- Follow GAAP, unless otherwise prescribed
- Not included as match for another Federal program
- Be net of all applicable credits

Indirect Cost Allocation Plan and Rates

Components:

- Indirect Costs
 - State-wide central services (SWCAP)
 - Department Specific Overhead pools – See Example (Office of Secretary)
 - Agency/Division/Budget Unit costs – See Divisional Indirect Cost Example
- Rate Base/Percentage
- Rate Development Methods
 - Simplified
 - Agency-wide costs must benefit all, division costs must be consistent, usually a single rate, may have division rates
 - Multiple Rate Method
 - Agency and division indirect cost benefit varies, different allocation basis for each pool, cost pools only allocated to benefitting units, multiple rates

Sample Indirect Cost Rate Proposal

Illustration 6-1

Sample Indirect Cost Rate Proposal - Simplified Method
Department of Environmental Services
For the Fiscal Year Ended June 30, XXXX

	<u>Total</u> <i>(e)</i>	<u>Exclusions</u> <i>(a)</i>	<u>Expenditures Not Allowable</u> <i>(b)</i>	<u>Indirect Costs</u> <i>(d)</i>	<u>Direct Costs (e)</u>	
					<u>Direct Salaries & Wages</u>	<u>Expenditures For All Other Purposes</u>
<i>Division/Bureau</i>						
Air Quality and Noise	\$ 438,338		\$ 36,820	\$ 47,480	\$ 206,320	\$147,718
Community Environmental Control	691,931		22,161	61,210	481,182	127,378
Water Quality Management	2,390,738	\$1,800,000	9,945	52,641	410,771	117,381
Solid Waste Disposal	1,153,057		106,210	96,847	643,782	306,218
Parks and Forests	<u>844,617</u>		<u>115,000</u>	<u>91,119</u>	<u>450,788</u>	<u>187,710</u>
Subtotal	\$5,518,681	\$1,800,000	\$290,136	\$349,297	\$2,192,843	\$886,405
<i>Departmental Indirect Costs</i>						
Office of the Director	\$ 122,610			\$122,610		
Financial Management	155,275			155,275		
Administrative Services	86,930			86,930		
Equipment Use	<u>16,800</u>			<u>16,800</u>		
Running Subtotal	\$5,900,296	\$1,800,000	\$290,136	\$730,912	\$2,192,843	\$886,405
<i>Services Furnished (But Not Billed)</i>						
<i>By Other Government Agencies (f)</i>						
Personnel	\$ 87,060			\$ 87,060		
Accounting	216,220			216,220		
Purchasing	22,211			22,211		
Audit	<u>12,210</u>			<u>12,210</u>		
Total	<u>\$6,237,997</u>	<u>\$1,800,000</u>	<u>\$290,136</u>	<u>\$1,068,613</u>	<u>\$2,192,843</u>	<u>\$886,405</u>

This is a sample. It is not intended to prescribe methods of charging costs.

Cost Allocation Plan Example

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Schedule .3 - Costs Allocated By Activity For Department Financial Svcs

Version 1.0008-1

	Total	General & Admin	GENL ACCTG	PAYROLL	UTILITIES
Wages & Benefits					
SALARIES & WAGES	268,984	0	217,877	18,829	32,278
FRINGE BENEFITS	83,794	0	67,873	5,866	10,055
Other Expense & Cost					
PROF SVCS	33,802	0	27,380	2,366	4,056
TECH SUPPORT	2,505	0	2,029	175	301
POSTAGE	3,645	0	2,953	255	437
TRAVEL & TRAINING	6,779	0	5,491	475	813
SUPPLIES	7,501	0	6,076	525	900
EQUIP RENTAL	4,092	0	3,315	286	491
MISC	13,405	0	10,858	938	1,609
*ADVERTISING	341	341	0	0	0
Departmental Totals					
Total Expenditures	424,848	341	343,852	29,715	50,940
Deductions					
Total Deductions	(341)	(341)	0	0	0
Functional Cost					
Functional Cost	424,507	0	343,852	29,715	50,940
Allocation Step 1					
Inbound- All Others	5,167	5,167	0	0	0
Reallocate Admin Costs	(5,167)	(5,167)	4,185	362	620
1st Allocation	429,674	0	348,037	30,077	51,560
Allocation Step 2					
Inbound- All Others	153,189	153,189	0	0	0
Reallocate Admin Costs	(153,189)	(153,189)	124,084	10,723	18,382
2nd Allocation	153,189	0	124,084	10,723	18,382
Total For 0060 Financial Svcs					
Total Allocated	582,863	0	472,121	40,800	69,942

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* - Indicates Disallowed Expenditure
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Cost Allocation Plan Example

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Schedule .4 - Detail Activity Allocations For Department Financial Svcs

Version 1.0008-1

Activity - GENL ACCTG

Receiving Department	Allocation Units	Allocation Percentage	Gross Allocation	Direct Billed	Allocation Step1	Allocation Step2	Total Allocation
Switchboard	64.00	0.2946	1,025		1,025		1,025
Financial Svcs	501.00	2.3065	8,028		8,028		8,028
Human Resources	646.00	2.9741	10,351		10,351	3,789	14,140
Purchasing	320.00	1.4732	5,127		5,127	1,877	7,004
County Atty	402.00	1.8507	6,441		6,441	2,358	8,799
Treasurer	427.00	1.9658	6,842		6,842	2,504	9,346
B & G	851.00	3.9179	13,636		13,636	4,991	18,627
Co Admin	546.00	2.5137	8,749		8,749	3,202	11,951
MIS	324.00	1.4916	5,191		5,191	1,900	7,091
Social Services	693.00	3.1905	11,104		11,104	4,065	15,169
Comm of Rev	453.00	2.0855	7,258		7,258	2,657	9,915
Judicial Admin	1,355.00	6.2382	21,711		21,711	7,947	29,658
Sheriff-Courts	545.00	2.5091	8,733		8,733	3,197	11,930
Sheriff-Law Enforcement	1,640.00	7.5503	26,278		26,278	9,619	35,897
Sheriff-Jail	77.00	0.3545	1,234		1,234	452	1,686
Other Public Safety	3,552.00	16.3531	56,912		56,912	20,833	77,745
Refuse	637.00	2.9326	10,207		10,207	3,736	13,943
Parham Landing Water	321.00	1.4778	5,143		5,143	1,883	7,026
Parham Landing Sewer	601.00	2.7669	9,630		9,630	3,525	13,155
Chichahominy Sewer	1,001.00	4.6084	16,039		16,039	5,871	21,910
Health	6.00	0.0276	96		96	35	131
Parks and Recreation	984.00	4.5302	15,767		15,767	5,771	21,538
Community Development	674.00	3.1030	10,800		10,800	3,953	14,753
Environmental	285.00	1.3121	4,567		4,567	1,672	6,239
Building Development	22.00	0.1013	353		353	129	482
Planning	506.00	2.3295	8,108		8,108	2,968	11,076
Water System	2,842.00	13.0841	45,538		45,538	16,669	62,207
Airport	666.00	3.0662	10,671		10,671	3,906	14,577
CSA	780.00	3.5910	12,498		12,498	4,575	17,073
SubTotal	21,721.00	100.0000	348,037		348,037	124,084	472,121
TOTAL	21,721.00	100.0000	348,037		348,037	124,084	472,121

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Cost Allocation Plan Example

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Allocated Costs By Department

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Central Service Departments	Detail						
	Social Services	Comm of Rev	Judicial Admin	Sheriff-Courts	Sheriff-Law Enforcement	Sheriff-Jail	Other Public Safety
Building Depreciation	0	2,679	21,511	12,306	12,306	0	28,841
Equipment Depreciation	0	0	0	0	0	0	0
Independent Audit	2,057	697	2,091	839	2,525	119	5,592
Switchboard	1,312	350	1,530	0	2,974	0	2,055
Financial Svcs	18,406	11,426	31,493	13,333	41,509	1,686	83,569
Human Resources	19,241	8,979	10,903	8,337	33,350	0	34,634
Purchasing	5,191	9,690	2,434	2,021	8,444	0	8,691
County Atty	31,032	1,633	1,633	0	1,633	0	3,267
Treasurer	8,264	5,402	16,157	6,498	19,555	918	42,350
B & G	42,530	21,371	124,731	50,510	191,424	0	39,762
Co Admin	10,651	5,326	26,628	0	15,977	0	26,628
PW Dir	0	0	0	0	0	0	0
MIS	33,020	77,045	0	0	11,007	0	11,007
Property Insurance	0	1,338	7,894	4,517	4,517	0	10,637
Gen Services Dir	0	0	0	0	0	0	0
Total Allocated	171,704	145,936	247,005	98,361	345,221	2,723	297,033
Roll Forward	0	0	0	0	0	0	0
Cost With Roll Forward	171,704	145,936	247,005	98,361	345,221	2,723	297,033
Adjustments	0	0	0	0	0	0	0
Proposed Costs	171,704	145,936	247,005	98,361	345,221	2,723	297,033

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Life Cycle of Indirect Cost Plans

July - September
Gather Prior FY Actual Data

July
Begin Using New Rates

September – November
Work on SWCAP and
Departmental Plan Drafts

June – July
Negotiate and Receive Approved
Next FY Rate

December
Finalize Cost Plans
Submit signed agency plan
to Cognizant Federal Agency

Indirect Cost Allocation Plan and Rates

Approval Agreements:

- Predetermined: established for 1 to 4 years, cannot adjust
- Fixed: 1 year, reconcile to actual, fixed with carry forward
- Provisional: temporary rate, annual reconciliation to actual, adjustment must be made to applicable period
- Final: based on actual cost of a period, used to close out provisional rates
- Negotiation and Approval
 - Best Practice: Submit annually by December 31st
 - Federal agency approval in a “timely” basis
 - Usually at least six months until receipt of rate Agreement

Cost Principles - Subpart E



Significant Changes

Overview of the Significant Changes

What MAXIMUS will cover today



Section 200.407 - *Prior written approval required*



Section 200.414 - *Indirect Cost Rates*



Section 200.428 - *Collections of Improper Payments*



Section 200.430 - *Compensation of Personal Services and Fringe Benefits*



Section 200.436 - *Depreciation* & **200.449** - *Interest*



Section 200.466 - *Idle Facilities/Capacity*



Section 200.425 – *Audit Costs*

Section 200.407- Prior written approval required

This is the first time the Feds actually listed the items that require prior approval. These are examples germane to you . . .

1. Direct charging administrative costs 200.413
2. Compensation-fringe benefits 200.431 (i) mass severance
3. Equipment and other capital expenditures 200.439
4. Insurance and indemnification 200.447 (b) (2) insuring Federal government property
5. Travel costs for officials included in General cost of government section 200.474



Section 200.414 - Indirect Cost Rates

1. Federal acceptance of approved IDC's
2. New de minimis rate - 10% of MTDC
3. One time extension of rate - up to 4 years
4. Negotiated rates must be allowed with pass-through entities



Section 200.430 Compensation of Personal Services and Fringe Benefits

1. Maintain high standards of internal controls for records used to document salaries charged to federal programs
2. Must be based on records that accurately reflect the work performed.
3. Federal agencies can approve alternative methods



Section 200.430 Compensation of Personal Services and Fringe Benefits

Section 200.431 Unused Leave Costs for Separating Employees

.431-1 Fringe Benefits and Indirect Costs **

Will the COFAR consider deleting the requirement in sections 200.431(b)(3)(i) and 200.431(e)(3) that fringe benefits be charged as indirect costs when the non-Federal entity is using a cash basis of accounting?

Yes. Based on the COFAR's recommendation, OMB issued a technical correction in December 2014 of the Uniform Guidance implementing regulations to delete the requirement that indirect costs be used to **charge payments of unused leave**, worker's compensation, unemployment compensation, severance pay, and similar employee benefits.

Section 200.430 Compensation of Personal Services and Fringe Benefits (cont.)

Section 200.431 Unused Leave Costs for Separating Employees

.431-2 Charging Payments of Unused Leave to Employees Terminating or Retiring *

In accordance with section 200.431(b)(3)(i), can the state, local and Indian Tribal governments using the cash basis of accounting with unfunded/unrecorded leave liabilities charge unused leave (payments to employees that retire or are terminated) directly to Federal programs?

No. Charging all unused leave costs for separating employees in the same manner as it had charged the employees' salary costs (i.e., directly to the activities on which the employees were working at the time of their separation) would result in inequitable distribution of the unused leave costs, because the leave costs were accumulated over the entire period of employment while working on various programs.

Section 200.436 - Depreciation & 200.449 - Interest

1. Must use asset depreciation not use allowance
2. Allows for reimbursement of financing costs associated with patents and computer software for interest on assets purchased after January 1, 2016
3. Capitalization of assets must be in accordance with GAAP



Section 200.466 - Idle Facilities/Capacity

1. Allows for the costs of idle facilities when they occur due to fluctuations in workload – shared services
2. Costs must be reasonable and allocated to all benefiting programs



Section 200.425 – Audit Costs

1. Internal audit costs are allowable when they support, or are related to, the Single Audit Process
2. Legislative audit costs, which are generally requested by the State and not related to the Single Audit process, are not allowable
3. Performance Auditing is not allowable



When Must You Implement Cost Principles?

- Section 200.110 - Federal agencies must implement the policies and procedures applicable to Federal awards by promulgating a regulation to be effective by December 26, 2014 unless different provisions are required by statute or approved by OMB.
- COFAR answers are vague on required implementation date. HHS Cost Allocation Services (CAS) interpretation is all changes must be implemented with FY 16 actual plans.



Summary and Recommendations

- ✓ Study the new rules. The Uniform Guidance is the most expansive grant reform since the Single Audit Act of 1984.
- ✓ Make sure that your costs are reasonable and allowable - study the new items of costs.
- ✓ Relationships matter - Start the dialogue with your federal/state cognizant agency early on in the process.
- ✓ Work with your state and local agencies to develop the best strategy for meeting the new requirements.
- ✓ Work with your auditors and consultants to develop a Uniform Guidance readiness strategy.

