

Cost Recovery That's Not Over Your Head:  
The *Ins and Outs* of ...

# INDIRECT COST ALLOCATION PLANS

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# PRESENTATION TOPICS

Defining Indirect Costs

Basic Guidelines

Tasks, Principles and Procedures

Uniform Guidance

Indirect Cost Allocation Plan and Rates



# 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.”



# REASONS FOR INDIRECT COST IDENTIFICATION

1 Total costing of services

2 Cost Recovery

- Special Funds
- Service Fees
- Insurance Claims
- Legal Claims

# 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

# BASIC GUIDELINES

## Costs may be allocated:

Only if benefit is received by Federal program;

All other (non-allowable) activities must receive appropriate allocation of indirect cost;

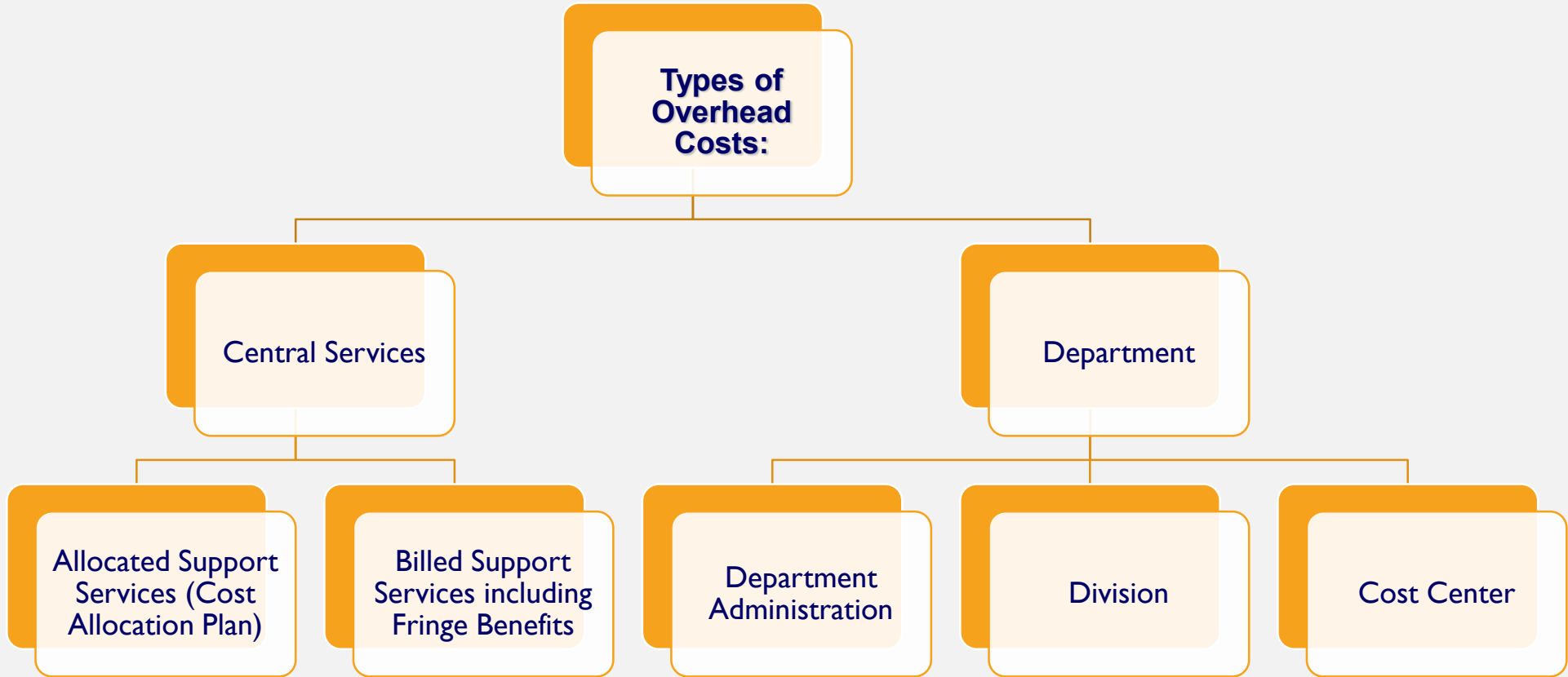
May not be “shifted” to other Federal programs, except in cases where costs are allowable under two or more awards’ program agreements;

If a joint cost, a cost allocation plan or indirect cost proposal is required as in OMB Regulations; and

Ultimately, there must be a relationship between the costs allocated and the benefit derived for that service.



# BASIC GUIDELINES



# BASIC GUIDELINES

## Allowable Costs - Examples

- Salary & Wages
- Fringe Benefits
- Depreciation
- Materials & Supplies
- Maintenance & Repair
- Memberships
- Motor Pools
- Training
- Travel
- Information Technology
- Insurance
- Professional Services





# BASIC GUIDELINES

## Unallowable Costs - Examples

- Bad Debts
- Capital Outlay
- Contributions
- Entertainment
- Legislative & Most Judicial Costs
- Contributions to Reserve Funds



- Research & Development Costs
- Fines & Penalties
- Alcoholic Beverages
- Lobbying
- Most Idle Facilities

# TASKS, PRINCIPLES AND PROCEDURES

## Recovery Tasks:

- Identify reasons for cost identification
- Prepare Central Services Cost Allocation Plan (CSCAP)
- Negotiate approval of Central Services Plan
- Identify department indirect costs
- Prepare departmental indirect cost rate proposal (ICRP)
- Negotiate approval of ICRP
- Apply/receive indirect costs
- Alternative to ICRP--PACAP



# TASKS, PRINCIPLES AND PROCEDURES

## Principles and Procedures:

### Federal Programs

- Applicable to Federally funded grants
- Applicable to all fund sources
- In accordance with Federal cost recovery principles
- In accordance with GAAP
- Must be prepared annually (there are exceptions)



# TASKS, PRINCIPLES AND PROCEDURES

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## **Federal Cost Recovery:**

Uniform Grants Guidance 2 CFR Part 200  
Sub Part E Cost Principles and Appendix VII.

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Implementation Guide – ASMB C-10 “Cost  
Principles and Procedures for Developing  
Cost Allocation and Indirect Cost Rates for  
Agreements With the Federal Government”

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# OVERVIEW OF THE SIGNIFICANT UG SECTIONS



**Section 200.407** - *Prior written approval required*



**Section 200.414** - *Indirect Cost Rates*



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



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



**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 . . .*

- Direct charging administrative costs 200.413
- Compensation-fringe benefits 200.431 (i) mass severance
- Equipment and other capital expenditures 200.439
- Insurance and indemnification 200.447 (b) (2) insuring Federal government property
- 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 unless an exception is required by regulation, or federal awarding agency approval
- 2 • New de Minimis rate - provides for a rate of 10% of MTDC to agencies that have never had a negotiated rate. This rate can be used indefinitely. Agencies must use rate on all awards until they obtain a negotiated rate
- 3 • If the government has a negotiated rate, the section permits a one time extension of rate up to 4 years - subject to review and approval of cognizant agency
- 4 • Negotiated rates must be allowed with pass-through entities

# SECTION 200.430 COMPENSATION OF PERSONAL SERVICES AND FRINGE BENEFITS

1. No relief for maintaining high standards over internal controls for records used to document salaries charged to federal programs
2. Charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed.
3. Federal agencies can approve alternative methods of accounting for salaries based on achievement of performance outcomes, including instances where funding from multiple programs is blended to more efficiently achieve a combined outcome.





# SECTION 200.430 COMPENSATION OF PERSONAL SERVICES AND FRINGE BENEFITS

## Section 200.431 Compensation-fringe benefits

(g) *Pension Plan Costs.* Pension plan costs which are incurred in accordance with the established policies of the non-Federal entity are allowable, provided that:

1. Such policies meet the test of reasonableness.
2. The methods of cost allocation are not discriminatory.
3. For entities using accrual based accounting, **the cost assigned to each fiscal year is determined in accordance with GAAP.**
4. The costs assigned to a given fiscal year are funded for all plan participants within six months after the end of that year. **However, increases to normal and past service pension costs caused by a delay in funding the actuarial liability beyond 30 calendar days after each quarter of the year to which such costs are assignable are unallowable.** Non-Federal entity may elect to follow the “Cost Accounting Standard for Composition and Measurement of Pension Costs” (48 CFR 9904.412).



## SECTION 200.430 COMPENSATION OF PERSONAL SERVICES AND FRINGE BENEFITS (CONT.)

(iii) Amounts funded by the non-Federal entity in excess of the actuarially determined amount for a fiscal year may be used as the non-Federal entity's contribution in future periods.

(iv) When a non-Federal entity converts to an acceptable actuarial cost method, as defined by GAAP, and funds pension costs in accordance with this method, the unfunded liability at the time of conversion is allowable if amortized over a period of years in accordance with GAAP.



# 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 assets acquired after *January 1, 2016*
3. Capitalization of assets must be in accordance with GAAP (we believe)



# SECTION 200.436 - DEPRECIATION & 200.449 - INTEREST

## §200.33 Equipment.

*Equipment* means **tangible** personal property (**including information technology systems**) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial statement purposes, or **\$5,000**.

## §200.58 Information technology systems.

*Information technology systems* means computing devices, ancillary equipment, **software**, firmware, and similar procedures, services (including support services), and related resources. See also §§200.20 Computing devices and 200.33 Equipment



# SECTION 200.436 - DEPRECIATION & 200.449 - INTEREST

## §200.12 Capital assets.

*Capital assets* means tangible or intangible assets used in operations having a useful life of more than one year which are capitalized in accordance with GAAP. Capital assets include:

(a) Land, buildings (facilities), equipment, and **intellectual property (including software)** whether acquired by purchase, construction, manufacture, lease-purchase, exchange, or through capital leases;

- **§200.436 Depreciation.**

- (a) Depreciation is the method for allocating the cost of fixed assets to periods benefitting from asset use. The non-Federal entity may be compensated for the use of its buildings, capital improvements, equipment, and software projects capitalized in **accordance with GAAP**, provided that they are used, needed in the non-Federal entity's activities, and properly allocated to Federal awards. Such compensation must be made by computing depreciation.



# SECTION 200.425 – SINGLE AUDIT COSTS

1. Internal audit costs are allowable when they support, or are related to, the Single Audit Process
  - The costs must be appropriately allocated to an indirect cost pool
2. Legislative audit costs, which are generally requested by the legislature and not related to the Single Audit process, are not allowable
3. Performance Audit is not allowable



# INDIRECT COST ALLOCATION PLAN AND RATES



## Proposal Submission Requirements:

- Submitted annually by 6 months after the close of your fiscal year or get extension.
- Certification of Indirect Costs
  - All costs are allowable and benefit Federal programs
  - Consistent treatment of costs and notice of any changes
  - Signed by the Chief Financial Officer, at least
- Organizational Chart, Functional Statements, Financial data, Federal participation
- Allocated cost documentation
  - Narrative description, Costs, Methodology, Allocation Base, Method for reconciling
- Indirect Cost Rate(s)



# GRANT MATCH

## Matching Funds:



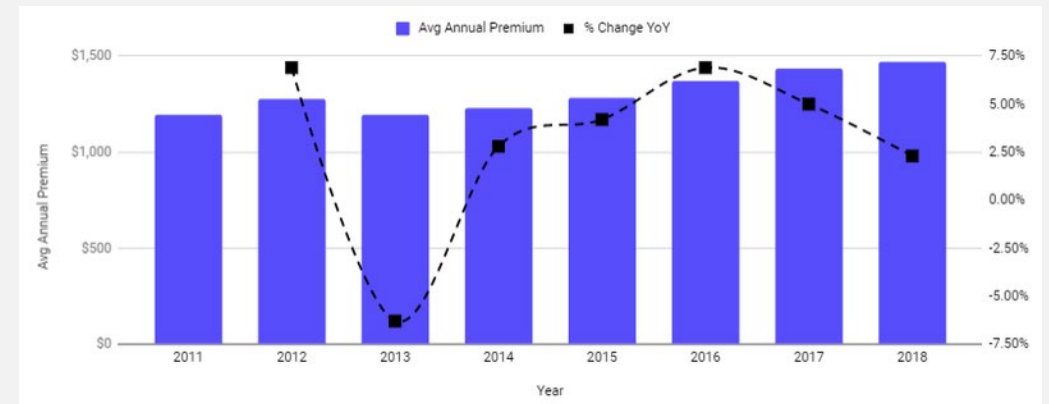
- Non-federal public or private funds
- Funds that are not used as match for any other federal program
- Unrecovered indirect costs
- Either cash or fairly valued in-kind.



# INDIRECT COST ALLOCATION PLAN AND RATES

## Components:

- Indirect Costs
  - Central Services Cost Allocation
  - Department Specific Overhead pools
  - Agency/Division/Budget Unit costs
- 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



# INDIRECT COST ALLOCATION PLAN AND RATES

## Rate Methodology:

- Selection of a Rate Method
  - Amount of Federal funding, type of programs, agency size
  - Maximizing indirect cost recovery
  - Availability of allocation statistics
  - Cognizant Federal agency



# INDIRECT COST ALLOCATION PLAN AND RATES

## Multiple Rate Method:

Reconcile agency costs to financial statements

Exclude capital/unallowable expenditures

Add allowable non-financial expenditures (building/equipment depreciation)

Classify agency and division level costs as either direct or indirect

Select appropriate allocation base for each cost pool

Distribute each cost pool to benefitting divisions

Compute rate for each division

# INDIRECT COST ALLOCATION PLAN AND RATES

## Documentation:

- Description of allocation methods
- Each Cost Pool
  - Description of services and allocation base
  - Items of included costs
  - Allocation Base
  - Allocation calculation
- Summary of allocations to benefitting entities



# INDIRECT COST ALLOCATION PLAN AND RATES

## Allocation Bases:

- Results in equitable allocation
- Available and Reasonable
- Common bases
  - Total costs
  - Salaries and wages
  - Number of full-time equivalent positions
  - Square footage
  - Number of transactions processed



# SINGLE RATE EXAMPLE

Illustration 6-1

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

| Division/Bureau                            | <u>Total</u><br><i>(e)</i> | <u>Exclusions</u><br><i>(a)</i> | Expenditures<br>Not<br><u>Allowable</u><br><i>(b)</i> | <u>Indirect</u><br><u>Costs</u><br><i>(d)</i> | <u>Direct Costs (c)</u>                                |  |
|--|----------------------------|---------------------------------|---|---|--|--|
|  |                            |                                 |   |   | <u>Direct</u><br><u>Salaries</u><br><u>&amp; Wages</u> | <u>Expenditures</u><br><u>For All Other</u><br><u>Purposes</u> |
| 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.

# MULTIPLE RATE EXAMPLE

**Illustration 6-3**

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

|   | Allocation<br>Base<br>(a) | Total<br>Indirect<br>Costs<br>(b) | Services Furnished by Other Gov't Agencies |               |              |              | Departmental Costs (d) |                    |                    |              |                     |
|---|---------------------------|-----------------------------------|--|---------------|--------------|--------------|------------------------|--------------------|--------------------|--------------|---------------------|
|   |                           |                                   | Personnel                                  | Accounting    | Purchasing   | Audit        | Director               | Financial<br>Mgmt. | Admin.<br>Services | Equipment    | Total<br>(f)        |
| <i>Services Furnished (But Not Billed) By Other Government Agencies (c)</i> |                           |                                   |  |               |              |              |                        |                    |                    |              |                     |
| Personnel   | No. of Employees          | \$ 87,060                         | (\$87,060)                                 |               |              |              |                        |                    |                    |              |                     |
| Accounting  | No. of Employees (e)      | 216,220                           | (\$216,220)                                |               |              |              |                        |                    |                    |              |                     |
| Purchasing  | No. of Purchase Orders    | 22,211                            | (\$22,211)                                 |               |              |              |                        |                    |                    |              |                     |
| Audit   | No. of Audit Hours        | <u>12,210</u>                     | (\$12,210)                                 |               |              |              |                        |                    |                    |              |                     |
| Subtotal  |                           | \$ <u>337,701</u>                 |  |               |              |              |                        |                    |                    |              |                     |
| <i>Departmental Indirect Costs</i>  |                           |                                   |  |               |              |              |                        |                    |                    |              |                     |
| Director's Ofc.   | Direct Salaries & Wages   | \$ 122,610                        | (\$122,610)                                |               |              |              |                        |                    |                    |              |                     |
| Financial Mgmt.   | Transactions Processed    | 155,275                           | (\$155,275)                                |               |              |              |                        |                    |                    |              |                     |
| Admin. Services   | Direct Salaries & Wages   | 86,930                            | (\$86,930)                                 |               |              |              |                        |                    |                    |              |                     |
| Equipment Use   | Uses of Equipment         | <u>16,800</u>                     | (\$16,800)                                 |               |              |              |                        |                    |                    |              |                     |
| Subtotal  |                           | \$ <u>381,615</u>                 |  |               |              |              |                        |                    |                    |              |                     |
| <i>Division/Bureau</i>  |                           |                                   |  |               |              |              |                        |                    |                    |              |                     |
| Air Quality and Noise   | \$                        | 47,480                            | \$ 17,545                                  | \$ 41,495     | \$ 3,434     | \$ 1,089     | \$ 24,522              | \$ 23,776          | \$ 15,543          | \$ 1,000     | \$ 175,884          |
| Community Environmental Control   |                           | 61,210                            | 12,920                                     | 30,575        | 3,434        | 1,089        | 24,522                 | 29,885             | 10,659             | 1,000        | 175,294             |
| Water Quality Management  |                           | 52,641                            | 11,997                                     | 28,394        | 2,289        | 1,089        | 24,522                 | 37,273             | 10,659             | 6,000        | 174,864             |
| Solid Waste Disposal  |                           | 96,847                            | 36,935                                     | 87,362        | 11,456       | 6,777        | 24,522                 | 46,423             | 29,488             | 6,000        | 345,810             |
| <u>Parks and Forests</u>  |                           | <u>91,119</u>                     | <u>7,663</u>                               | <u>28,394</u> | <u>1,598</u> | <u>2,166</u> | <u>24,522</u>          | <u>17,918</u>      | <u>20,551</u>      | <u>2,800</u> | <u>196,761</u>      |
| Subtotal  |                           | \$ <u>349,297</u>                 |  |               |              |              |                        |                    |                    |              |                     |
| Totals  |                           | <u>\$1,068,613</u>                | <u>- 0 -</u>                               | <u>- 0 -</u>  | <u>- 0 -</u> | <u>- 0 -</u> | <u>- 0 -</u>           | <u>- 0 -</u>       | <u>- 0 -</u>       | <u>- 0 -</u> | <u>\$ 1,068,613</u> |

SAMPLE ONLY



# 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*
  - Submit annually within 6 months after the end of the fiscal year
  - Federal agency approval in a “timely” basis
  - Usually at least six months until receipt of rate Agreement





# INDIRECT COST ALLOCATION PLAN AND RATES

## MAXIMUS Negotiation Strategy:

Request submission extension in writing



Submit all required information



Understand the Federal negotiator's job



Be knowledgeable of UG and aware of "grey" areas



Consistency is important



Negotiator has upper hand



Be patient and persistent



Solicit advice and experience of counterparts



# INDIRECT COST ALLOCATION PLAN AND RATES

## Indirect Cost Recovery:

- Approved Rate(s) are maximum rate
- Not required to charge all programs
- Not required to charge same rate
- Must be included in grant budget
- Applied on quarterly claims
- Change on agency fiscal year



# MD SENATE BILL 17

## Reimbursement of Nonprofit Indirect Costs

[(b)] (C) If a nonprofit organization is a direct recipient or sub-recipient of a grant or contract for the provision of services that is funded wholly with State funds or with a combination of State and other nonfederal funds, the terms of the grant or contract shall allow for reimbursement of indirect costs:

(1) at the same rate the nonprofit organization has negotiated and received:

- (i) for indirect costs under a direct federal award; or
- (ii) from a nonfederal entity based on the cost principles in Subpart E of OMB Uniform Guidance; or

(2) if the nonprofit organization has not negotiated and received an indirect cost rate described in item (1) of this subsection, at a rate of at least 10% of the costs that would be considered modified total direct costs under OMB Uniform Guidance.



# INDIRECT COST ALLOCATION PLAN AND RATES

## Conclusion:

- Reasonable and consistent process
- Document ICRP tasks
- Be confident in negotiation process
- Solicit advice and experience of others

