



## FINANCIAL MANAGEMENT SERVICE

### DIVISION OF COST ALLOCATION

# INDIRECT COST RATES



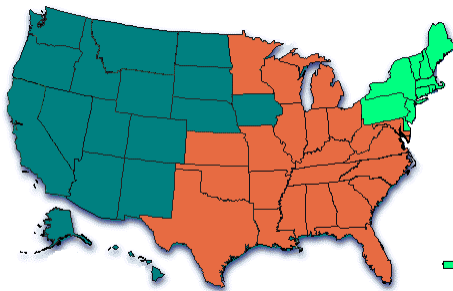
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1

## DCA Offices for S&L

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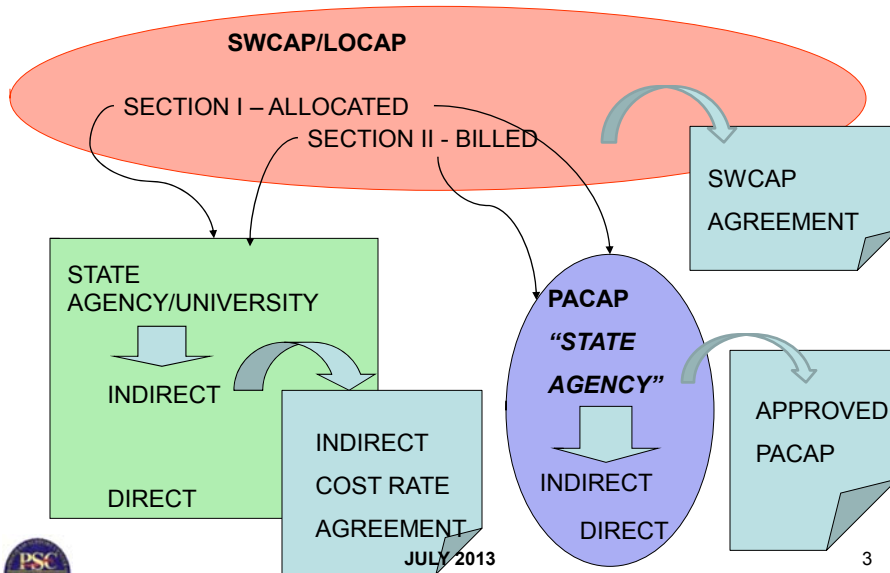
New York, NY



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2

# DCA – State Involvement



# A-87 Basic Guidelines

## Appendix A:

1. Allowable
2. Reasonable
3. Allocable
4. Applicable Credits



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4

# Allocable Costs

## RELATIVE BENEFIT RECEIVED

-All activities benefitting from indirect costs, including unallowable activities and donated services received will receive an appropriate allocation of indirect costs.

- Cost allocable to a particular Federal award may not be charged to another Federal award.

-Accumulation of indirect costs resulting to Federal award requires a SWCAP, PACAP or indirect cost rate

2 CFR Part 225, Appx A, C.3.

SWCAP – state central services

PACAP – state departments with programs listed at 45 CFR Part 95.503

**Indirect Cost Rate** – for organizations with federal award requiring an indirect cost rate agreement to be reimbursed for indirect costs



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5

# Classification of Costs

**“No universal rule”**

**Treat each item of cost consistently in like circumstances either as a direct or indirect cost.**

2 CFR Part 225, Appx A, D. 2.



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6

# Classification of Costs

## Direct Costs:

Can be identified specifically with a particular final “cost objective”---  
“function, organizational subdivision, contract, grant, or other activity  
for which cost data are needed and for which costs are incurred” **2 CFR  
Part 225, Appx A, B. 11.**

### TYPICAL Direct costs:

Compensation of personnel for the time devoted and identified  
**SPECIFICALLY** to the award.

**SPECIFICALLY** acquired, consumed, expended, incurred for the award

**APPROVED** equipment and capital expenditures

2 CFR Part 225, Appx A, E 1. & 2.

PROGRAM REGULATIONS: ????????????



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7

# Classification of Costs

## Indirect Costs:

Incurred for a common or joint purpose benefiting more than one cost objective,  
and

Not readily assignable to benefiting cost objectives without effort  
disproportionate to the results achieved.

2 CFR Part 225, Appx A, F.1.

Direct cost items of minor amounts – if accounting treatment is consistently  
applied

2 CFR Part 225, Appx A, E. 3.

PROGRAM REGULATIONS: ????????????



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8

# Typical Indirect Costs

Cannot be specified in all situations

State/Local-wide central service costs (SWCAP/LOCAP)

General Administration of the department / agency

Accounting and personnel services within the department / agency

Costs of operating and maintaining facilities, etc.

2 CFR Part 225, Appx E, A.4.



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9

# Equitable Distribution of Indirect Costs

Establish a number of pools

Distribute to benefitted cost objectives on base that will produce an equitable result in consideration of relative benefits received.

2 CFR Part 225, Appx A, F. 1.

Methods:

Single or Multiple Indirect Cost Rate(s)

Single / Multiple cost pools using bases other than Dollars

ASMB C-10 Section 4.6.2

Can't shift indirect costs unrecoverable for a Federal award to another Federal award

2CFR Part 225, Appx A, F. 2. b.



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10

# Cost Classification



Are they related?  
How are they similar?  
How are they different?  
How do you know?



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11

# Organization Specific Cost Classification



## Considerations:

State accounting system / requirements  
Organizational structure  
Hierarchy of reporting within organization  
Departmental accounting system capabilities  
especially cost allocation  
Cost Principles – A-87  
Program regulations  
To what detail costs must be reported  
Other???

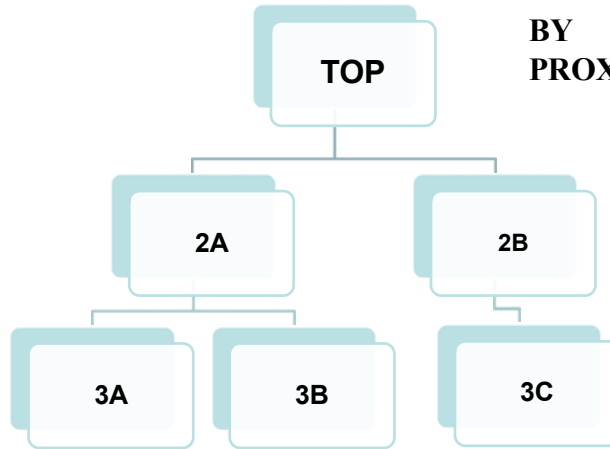


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12

# ALLOCATING COSTS -

BY  
PROXIMITY



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13

## Direct vs Indirect Allocation

What they look like ---

**DIRECT**

<u>Building Rent</u>	Dept A	Dept B	Dept C	Indirect Pool	Total
Base:					
Square Feet	\$ 4,536	\$ 13,548	\$ 27,323	\$ 6,578	\$ 51,985
Percentage	8.7%	26.1%	52.6%	12.7%	100%
Allocation	\$ 742	\$ 2,215	\$ 4,468	\$ 1,076	\$ 8,500

<u>Building Rent</u>	Dept A	Dept B	Dept C	Indirect Pool	Total
Base:					
Square Feet					
Percentage					
Allocation	\$ -	\$ -	\$ -	\$ 8,500	\$ 8,500

**INDIRECT**



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14

# Indirect Cost Rates



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15

# Indirect Cost Rate Types

**Provisional / Final**

**Fixed with carryforward**

**Predetermined**

- Fixed Price Contract Issue

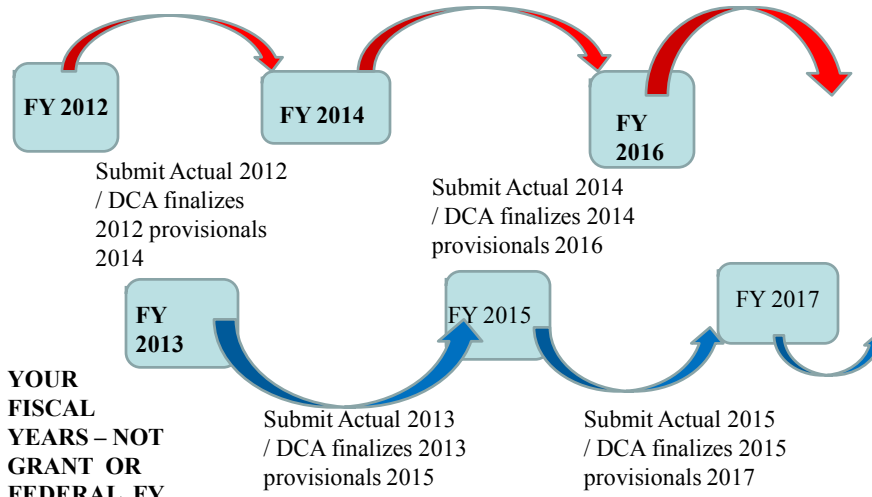


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16



# INDIRECT RATE CYCLES



**YOUR FISCAL YEARS – NOT GRANT OR FEDERAL FY**



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17

## Indirect Cost Rate

$$\frac{\text{Allowable Indirect Cost}}{\text{Direct Cost Base}^*} = \text{Indirect Cost Rate \%}$$

\* Including Costs of Unallowable Activities



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18

## Indirect Cost Rate Base

**Accumulated direct costs used to distribute indirect costs to individual Federal awards.**

**The base selected should result in each award bearing a fair share of the indirect costs in reasonable relation to the benefits received.**

2 CFR Part 225 Appx E, B.4.



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19

## Typical Direct Cost Bases

- Total direct salaries & wages
- Total direct salaries & wages including all fringe benefits
- Modified Total Direct Costs (MTDC) -Total direct costs excluding capital expenditures, that portion of each subaward in excess of \$25K and flow-thru funds.

**Costs of unallowable activities which benefit from the indirect cost pool should be included in the base.**



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20

# Required Proposal Contents

**Audited financial statements or alternative**

**Indirect rate calculation**

**Reconciliation of AFS and proposed calculation**

**Federal amount included in base**

**First Proposal? Include copy of direct Federal grant award**

**Equipment capitalization and useful life thresholds**

**2 CFR Part 225 (A-87) Appendix E Certificate of Indirect Costs**



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21

**SWCAP**

STATE OF XXXX EXHIBIT A  
 FY 2012 STATEWIDE COST ALLOCATION PLAN  
 SUMMARY OF FIXED ALLOCATIONS  
 FISCAL YEAR ENDING JUNE 30, 2012

DEPARTMENTS	BUDGET & FINANCING	HUMAN RESOURCES	TOTAL
GOVERNORS OFF.	\$ (3,469)	\$ 421	\$ (3,048)
BUR. OF ADMIN.	4,196	769	4,965
SOCIAL SERV.	17,738	3,579	21,317
HEALTH DEPARTMENT	10,045	1,732	11,777
LABOR DEPT.	4,056	1,426	5,482
TRANSPORT.	44,070	4,890	48,960
EDUCATION	35,971	854	36,825
HIGHER EDUCATION	39,574	-	39,574
CORRECTIONS	15,138	3,500	18,638
HUMAN SERVICES	34,442	7,700	42,142
LEGISLATURE	927	499	1,426
<b>ATTORNEY GENERAL</b>	2,673	487	3,160
SEC. OF STATE	450	71	521
ST. TREAS./INV. C.	2,584	64	2,648
STATE AUDITOR	303	39	342
<b>TOTAL ALL AGENCIES</b>	<b>\$ 208,698</b>	<b>\$ 25,731</b>	<b>\$ 234,429</b>



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22

# Simplified Proposal

Expense	DIRECT PROGRAMS					
	AFS	Adj	Program A	All Other	Total Direct Costs	Indirect Costs
Salaries and wages	\$ 1,327,638	\$ -	\$ 140,831	\$ 970,512	\$ 1,111,343	\$ 216,295
	\$ 245,434	\$ -	\$ 28,138	\$ 174,081	\$ 202,219	\$ 43,215
Fringe benefits	\$ 1,573,072	\$ -	\$ 168,969	\$ 1,144,593	\$ 1,313,562	\$ 259,510
Subtotal labor	\$ 245,420	\$ (170,420)	\$ -	\$ 75,000	\$ 75,000	
Subawards (3)	\$ -	\$ 41,582	\$ -	\$ -	\$ -	\$ 41,582
Depreciation/ Use allowance	\$ 11,448	\$ -	\$ 592	\$ 5,478	\$ 6,070	\$ 5,378
Equipment rental	\$ 58,215	\$ (58,215)	\$ -	\$ -	\$ -	\$ -
Equipment / Capital	\$ 3,901	\$ -	\$ -	\$ -	\$ -	\$ 3,901
Postage	\$ -	\$ 3,160	\$ -	\$ -	\$ -	\$ 3,160
SWCAP	\$ 1,892,056	\$ (183,893)	\$ 169,561	\$ 1,225,071	\$ 1,394,632	\$ 313,531
TOTAL						



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23

# RATES

## Calculation of the Rate

Base: Direct Salaries & Wages excluding fringe benefits

Indirect Costs	\$ 313,531		
Direct Costs	1,111,343	=	28.2%

Base: Direct Salaries & Wages including fringe benefits

Indirect Costs	\$ 313,531		
Direct Costs	1,313,562	=	23.9%

Base: Modified Total Direct Costs (MTDC)

Indirect Costs	\$ 313,531		
Direct Costs	1,394,632	=	22.5%



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24

# Agreement Format

## STATE AND LOCAL GOVERNMENTS RATE AGREEMENT

EIN: [REDACTED]

DATE: 08/01/2012

ORGANIZATION: [REDACTED]

FILING REF.: The preceding agreement was dated 05/12/2011

The rates approved in this agreement are for use on grants, contracts and other agreements with the Federal Government, subject to the conditions in Section III.

### SECTION I: INDIRECT COST RATES

RATE TYPES:      FIXED                  FINAL                  PROV. (PROVISIONAL)                  PRED. (PREDETERMINED)

#### EFFECTIVE PERIOD

<u>TYPE</u>	<u>FROM</u>	<u>TO</u>	<u>RATE(%)</u>	<u>LOCATION</u>	<u>APPLICABLE TO</u>
FINAL	07/01/2010	06/30/2011	21.20	On Site	All Programs
PROV.	07/01/2011	Until Amended		"Use same rates and conditions as cited for FYE 06/30/11."	

#### \*BASE

Direct salaries and wages including all fringe benefits.



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25

# Agreement Format

ORGANIZATION: [REDACTED]

AGREEMENT DATE: 8/1/2012

### SECTION II: SPECIAL REMARKS

#### TREATMENT OF FRINGE BENEFITS:

The fringe benefits are specifically identified to each employee and are charged individually as direct costs. The directly claimed fringe benefits are listed below.

#### TREATMENT OF PAID ABSENCES

Vacation, holiday, sick leave pay and other paid absences are included in salaries and wages and are claimed on grants, contracts and other agreements as part of the normal cost for salaries and wages. Separate claims are not made for the cost of these paid absences.

#### Equipment Definition -

Equipment means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost of \$2,500 or more per unit.

#### FRINGE BENEFITS:

FICA  
Retirement  
Worker's Compensation  
Unemployment Insurance  
Group Insurance



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26

# Proposed Reform of Federal Policies

## Cost Principles and Administrative Requirements – Other Changes:

- Indirect Cost Rates – State and local government:
  - Departments receiving > \$35 million of direct federal funding must submit proposal to Federal cognizant agency.
  - All others not required to submit unless required by Federal cognizant agency.



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27

# Proposed Reform of Federal Policies

## Cost Principles and Administrative Requirements – Other Changes:

- Indirect Cost Rates – All “Entities”
  - No rate agreement – may take 10% of MTDC up to 4 years until a rate is negotiated.
  - May apply for a one-time extension of a current negotiated rate for up to 4 years.
    - Requires Cognizant approval
    - May not request a rate review until extension ends.



JULY 2013

28

# WEBSITES

DIVISION OF COST ALLOCATION: <https://rates.psc.gov/>

State, Local and Tribal documents:

<https://rates.psc.gov/fms/dca/s&l.html>

Government Printing Office: <http://www.gpo.gov/fdsys/>

U.S. Department of Interior:

[http://www.doi.gov/ibc/services/indirect\\_cost\\_services/ICS\\_Services.cfm](http://www.doi.gov/ibc/services/indirect_cost_services/ICS_Services.cfm)

U.S. Department of Labor:

<http://www.dol.gov/oasam/boc/dcd/>

U.S. Department of Education:

<http://www2.ed.gov/about/offices/list/ocfo/fipao/icgindex.html>



JULY 2013

29