

Indirect Cost Rates

and Administrative Costs

Indirect Cost Rate

Methods must be formalized

◆ Indirect Cost Rate

- ◆ Not needed if you have only one federal funding source
- ◆ More than one federal funding source – refer to OMB Circulars – need either an indirect cost rate or a cost allocation plan
- ◆ Needs approval by cognizant agency

◆ Cost Allocation Plan (CAP)

- ◆ If you have more than one funding stream – you will need either a CAP or an indirect cost rate
- ◆ State should have a policy or directive in place to address the approval process

Types of Costs

- ❖ Direct

- ◆ Single cost objective

- ❖ Shared

- ◆ Multiple cost objectives, or
- ◆ Multiple fund sources

- ❖ Indirect

- ◆ Overhead, typically

Indirect Costs

Indirect costs are expenses of doing business that are . . .

- **necessary for the general operation of the organization**
- **not easily identified with a particular**
 - ◆ **Grant or**
 - ◆ **Contract or**
 - ◆ **Project function or**
 - ◆ **Activity**

Indirect Costs

In theory, costs like heat, light, accounting and personnel might be charged directly if little meters could record the minutes of these activities.

However, practical difficulties preclude such an approach.

Therefore, cost allocation plans or indirect cost rates are used to distribute those costs to the benefitting sources.

Indirect Cost Rates

❖ What entity needs an ICR?

◆ Single Funding Source

- ◆ Indirect cost rate not needed

◆ Multiple Funding Sources

- ◆ Indirect cost rate needed

Indirect Cost Rates

What is an ICR?

- ❖ A way to fairly and conveniently determine what proportions of departmental or organizational cost each program should bear**

Indirect Cost Rate, the ratio.

The ratio, expressed as a percentage, of an indirect cost pool and some direct cost base.

$$\text{Rate} = \frac{\text{Pool}}{\text{Base}}$$

Indirect Costs

- ❖ Allowable to Extent
 - ◆ Contained in Indirect Cost Allocation Plan
 - ◆ Approved by cognizant Federal Agency, if required
- ❖ Generally overhead costs of organization

Cost Pools

- ❖ Actual costs only
- ❖ Any combination of like costs
- ❖ Types of pools
 - ◆ Administrative cost pools
 - ◆ Program costs pools
 - ◆ Facilities or maintenance
 - ◆ Technology costs

Cost Objectives

Transactions

Not easily id'd
with a fund
source

Intermediate

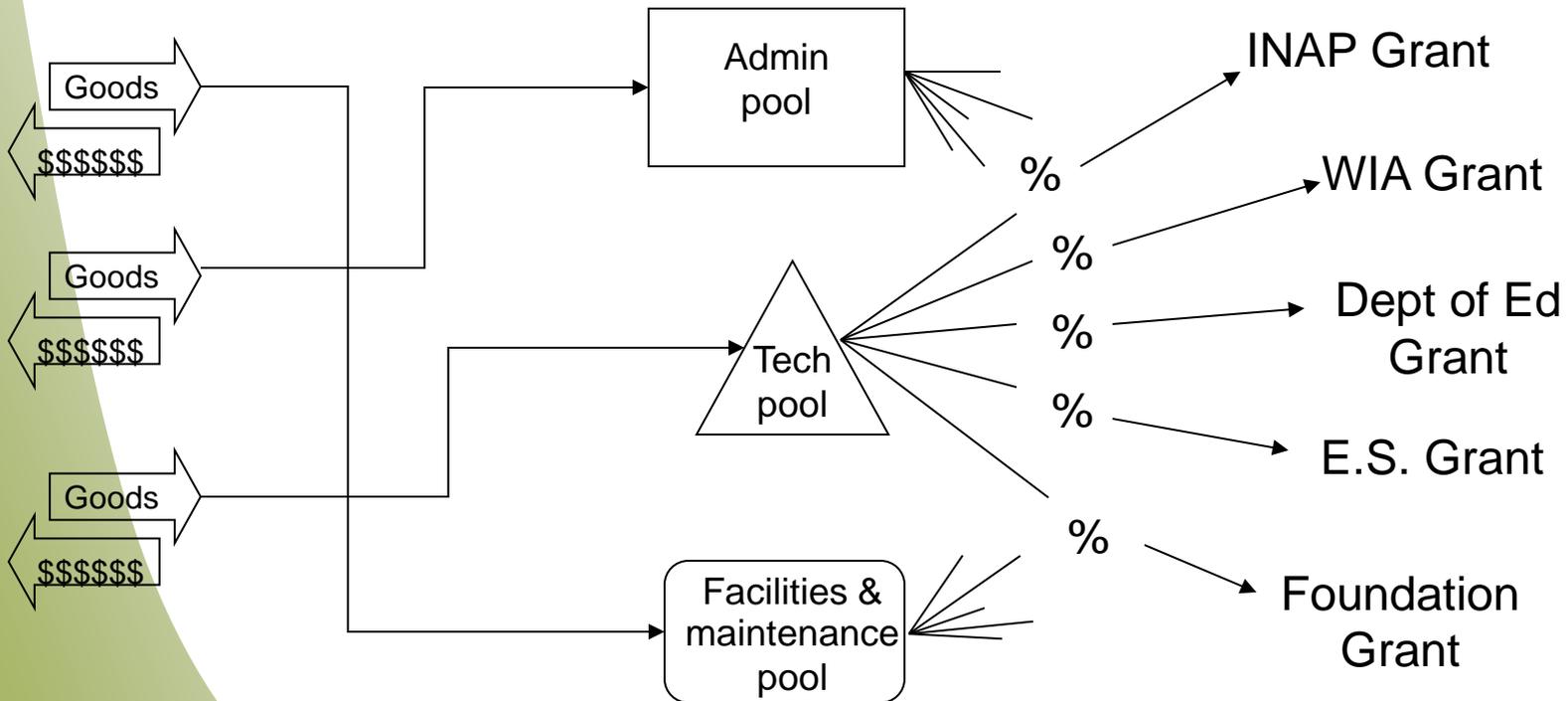
Cost Objectives

Cost pools or
cost centers

Final

Cost Objective

Funding source



Managing Pools

- ❖ Distribution based on formulas
- ❖ Formulas are allocation bases
 - ◆ Vary by type of pool
- ❖ Liquidated for reporting

Suggested Bases for Allocation

- ❖ Admin cost pool - time distribution
- ❖ Program cost pool – participants served
- ❖ Facilities cost pool – square footage
- ❖ Technology cost pool – time distribution

More Suggested Bases

Activity

Office space

-Utilities, janitor, security

Telecommunications

-Pagers and cell phone

Motor pool costs

Bases for allocation

Square footage

Staff distribution

Program participants

Indirect Cost Rate

❖ Example:

Indirect Cost Pool = \$ 10,000

Distribution Base = \$100,000

(Salaries & Benefits)

Indirect Cost Rate = 10%

Allocation Bases

- ❖ Fair basis
- ❖ Minimal distortion
- ❖ Actual effort or cost
- ❖ General acceptability
- ❖ Timely control
- ❖ Variations in funding/costs
- ❖ Materiality, cost and practicality of use

Unacceptable Allocation Bases

- ❖ Fails to meet standards
- ❖ Distorts final results
- ❖ No direct relationship to costs
- ❖ Developed from plans, budgets or estimates
- ❖ Allocation must result in **EQUITABLE** distribution of costs

Allocating Personnel Services

- ❖ Based on documented & approved payrolls
- ❖ Supported by time distribution system
- ❖ Method of allocation & support for allocation varies
- ❖ Major part of allocated costs

Treatment of Costs

- ❖ Consistent treatment
 - ◆ In accounting system
 - ◆ Over time
- ❖ Measuring benefit
 - ◆ Critical requirement of cost allocation
 - ◆ Benefit determines allocation

Keep in Mind...

- ❖ Simple
- ❖ Replicable
- ❖ Organizational Structure
- ❖ Structure & capabilities
- ❖ Prudent changes

Time Distribution

- ❖ Time & attendance records (PAR)
 - ◆ Various methods
- ❖ Time sampling methods
 - ◆ Cognizant agency approval
- ❖ Measurable work outputs
- ❖ Use also for allocating non-personnel costs

Cost Allocation Plans

- ❖ Written documentation of
 - ◆ Direct and allocated costs
 - ◆ Allocation methods used
- ❖ Supported by formal accounting records
- ❖ Signed by authorized agency official

CAP Elements

- ❖ Background & mission statement
- ❖ Organizational chart
- ❖ Financial statements & budgets
- ❖ Description of pooled or joint costs
- ❖ Methods used to allocated costs
- ❖ Certification

Benefits of a CAP

- ❖ Management tool
- ❖ Equitable sharing of costs
- ❖ Establishes financial management standards
- ❖ Meets cost principles and standards
- ❖ Eliminates arbitrary methods of charging costs
- ❖ Standardizes financial practices

Who needs an approved indirect cost rate?

\$Single Funding Source

Indirect cost rate not needed

\$\$\$Multiple Funding Sources

Indirect cost rate needed

Grantees Subject to:

OMB CIRCULAR A-87

- ❖ At least one source of direct Federal funding
- ❖ More than one source of revenue
(Federal and Non-Federal)
 - Cost Allocation Plan (CAP), OR
 - Indirect Cost Rate (ICR)

*SUBJECT TO COGNIZANT AGENCY REVIEW
AND APPROVAL*

**Grantees Subject to :
OMB CIRCULAR A-122**

- ❖ At least one source of direct Federal funding
- ❖ More than one source of revenue (Federal and Non-Federal)

APPROVED INDIRECT COST RATE

NO APPROVED ICR??

- ❖ Must seek approval within 90 days of grant approval
- ❖ Where?
 - ◆ Cognizant Agency (determined based on Fed. Agency providing largest amount of Fed. Funds)
 - ◆ If grant is only Federal award, DOL is cognizant

Federal Guidance

- ❖ Contained in the Cost Principles
 - ◆ OMB Circular A-87
 - ◆ OMB Circular A-122
 - ◆ OMB Circular A-21
 - ◆ 48 CFR Part 31
 - ◆ 45 CFR Part 74, Appendix E
- ❖ Guidance on direct and indirect costs

Questions on ICRs?

- ❖ Department of Labor
- ❖ Office of Cost Determination
- ❖ Telephone: 202-693-4100

- ❖ *“A Guide for Indirect Cost Rate Determination”*

Administrative Limit

- ❖ Negotiated administrative cost level
 - ◆ ONP Bulletin No. 99-003
 - ◆ Minimum 15% - Maximum 20%
- ❖ Expressed as percent of grant award
 - ◆ Contained in the grant document
- ❖ Measured at conclusion of grant period

WIA Definition

- ❖ 20 CFR 667.220(a)
- ❖ Not related to direct services
 - ◆ Either to clients or employers
- ❖ List of specific functions
 - ◆ Unlike traditional definitions
- ❖ Applies to all Title I programs

Administrative Functions

- ❖ Overall general administrative functions
 - ◆ Accounting, financial & cash management
 - ◆ Procurement
 - ◆ Property management
 - ◆ Personnel management
 - ◆ Payroll
 - ◆ Coordinating resolution of findings
 - ◆ Audit, monitoring, investigations

Administrative Costs

- ❖ Goods & services
 - ◆ Required for administrative functions
- ❖ Travel costs
 - ◆ Carry out administrative activities
 - ◆ Related to overall management
- ❖ Awards for administrative functions
 - ◆ Payroll service for staff

Administrative Functions

- ❖ General administrative functions
 - ◆ Audit functions
 - ◆ General legal services
 - ◆ Developing systems and procedures
 - ◆ Includes information systems
 - ◆ Required for administrative functions
- ❖ Monitoring of administrative functions

Administrative Costs Information Technology

- ❖ Costs of information systems
 - ◆ Related to administrative functions
 - ◆ Accounting & payroll systems
 - ◆ Procurement & purchasing systems
 - ◆ Etc.
- ❖ Costs include
 - ◆ Purchase, development & operation

Program Costs

Information Technology

- ❖ Tracking/monitoring participant & performance information
- ❖ Employment statistics
- ❖ Performance & cost information
 - ◆ Eligible providers of training services
 - ◆ Youth & education activities

Other Guidance

❖ Job Title vs. Job Function

- ◆ Costs follow job function, NOT title
- ◆ Multiple functions must be allocated

❖ Subrecipient level classification

- ◆ Use of contract proposals or invoicing
- ◆ Function of the award

Indirect Costs

- ❖ Allowable to an extent
 - ◆ Contained in a Cost Allocation Plan
 - ◆ Identify as a separate cost pool & allocated to programs based on equitable benefit
 - ◆ Approved by cognizant Federal Agency, if required

- ❖ Normally must be within administrative cost limitations

- ❖ Generally overhead costs of organization
 - ◆ Can not include unallowable costs such as fundraising

Cognizant Agency

To whom do you submit your proposal or CAP?

- ❖ Must be submitted to the organization's **cognizant Federal agency**
 - ◆ For agencies operating direct and pass through federal grants - the largest dollar volume of **direct** Federal funding is normally used to determine the cognizant Federal agency. (Cognizance may be negotiated between Federal agencies.)
 - ◆ The cognizant agency concept flows down logically to state, local, or other levels of funding.
- ❖ For agencies that have only 'pass through' federal funding
 - ◆ Contact the State agency for guidance for submission and approval process

Cost Allocation Plan or Indirect Cost Rate

- ❖ Necessary if:
 - ◆ Operation of multiple programs or funding sources
- ❖ One Stop Delivery System
 - ◆ Cost Allocation Plan and a shared costs budget between partners must be provided in the local Resource Sharing Agreement
 - ◆ Federal Register Notice dated May 31, 2001

Time Distribution Systems

- ❖ System to document how personnel services costs are charged to cost objectives
 - ◆ Refer to applicable OMB Circulars on Cost Principles for additional guidance
 - ◆ Substitute systems are allowed but may need approval
 - ◆ Locals see State for guidance
 - ◆ Direct Grantees see Feds for guidance

Time Distribution Systems

Tips

- ◆ Time sheets alone may not be sufficient
- ◆ Need method to track time by activity and/or program
- ◆ Must account for all time worked
- ◆ Must be periodically certify by a supervisor
- ◆ Should tie to payroll system and agree with agency's staff payroll policies
- ◆ Distribution method for allocating personnel expenses must be fair and consistent

Common Compliance Issues

Time Distribution Systems

- ❖ No time distribution or time and activity system in place
- ❖ Actual allocation basis conducted by a third party payroll service (ie. ADP) does not reflect actual time spent on activities as evident on employees' time sheets
- ❖ Time sheets recorded only time spent on federal projects or less than 100% of an individual's time each pay period
- ❖ Management did not maintain timesheets
- ❖ Distribution basis for allocation changed every month
- ❖ Allocating hours that were not paid

Common Compliance Issues

Cost Allocation

- ❖ No written cost allocation plan or approved indirect cost rate in place
- ❖ No supporting documentation is maintained to justify recent allocations
- ❖ Working without an approved indirect rate
- ❖ Cost limitations are not considered during allocation process
- ❖ Using the wrong distribution base
- ❖ Using an approved rate that is not authorized for your program or department
- ❖ Costs are allocated on a set percentage established at the start of the year without any adjustments to reflect actual activity.
- ❖ Methodologies and allocation basis are often changed from one month to the next without explanation or rationale.

Indirect Cost Rate & Cost Allocation Plan Resources

- ❖ Current List of USDOL Cost Negotiators
<http://www.dol.gov/oasam/programs/boc/costdeterminationguide/contact.htm>
- ❖ List of Cognizant Agencies
<http://www.agacgfm.org/intergovernmental/downloads/FederalCognizantAgencies.pdf>
- ❖ Cost Allocation and Indirect Cost Rate Tools by various governments and entities operating federal programs
<http://www.agacgfm.org/intergovernmental/downloads/CostAllocationRG.pdf>

Questions?

