Indirect Cost Allocation

Presented by: Gina Laney
Financial Management Specialist

FHWA/RC-FST
Benefits of Indirect Cost Allocation

- Flexibility with State funds
- Quicker obligation & reimbursement of Federal Funds
- In accordance with State law
- Another Cash Flow Tool
“Pitfalls” of claiming Indirect Costs

- Legislature may take away funding
- Less Federal dollars for construction
- Administratively burdensome
States Claiming IC

- Claims IC
- Plans to Claim IC
- Considering Claiming IC
Governing Federal Regulations and Policies

- 49 CFR Part 18 – Common Rule
- 2 CFR 225 – Cost Principles
- FHWA Policies
HIERARCHY OF LAW

Federal Law

- US CODE, 23 USC
- CODE OF FEDERAL REGULATIONS, 23 CFR
- AGENCY POLICY MEMOS
- OMB CIRCULARS

State Law

Local Law
COMMON RULE

Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments
APPLICABILITY

- 18.4...All grants and subgrants to State, Local and Indian Tribal Governments *Except* where inconsistent with federal statutes...

- 18.6...Federal Agencies may not impose additional *Administrative Requirements* *except* in codified regulations published in the Federal Register

- Does **Not** Include
  - Higher Education
  - Hospitals
  - Entitlement Programs
COMMON RULE-THREE MAIN INGREDIENTS

- Pre-award Requirements
- Post Award Requirements
- After the Grant
1998 FHWA Memorandum

- TEA-21 removed the limitation on indirect costs
- Agency must prepare an ICAP IAW OMB Circular A-87
2004 FHWA Memorandum

- Governing Regulations
  - 49 CFR Part 18 (Common Rule)
  - OMB Circular A-87
  - Implementation Guide for A-87 (ASMB-C10)
  - 1998 FHWA Memorandum

- Proper allocation to all cost objectives
- A separate project for IC can not be established
- A project can be established for administrative purposes if authorized by legislation
Impact of A-87 Migration

☐ A-87 Codified in 2 CFR 225
☐ Hierarchy of Laws
☐ Status of FHWA Policies
2 CFR 225 PURPOSE

- Policy (allowability vs. eligibility)
- Required Action
- OMB Responsibilities
ATTACHMENT A
PURPOSE AND SCOPE

- Principles for determining allowable cost
- Cost Determination – not Eligibility
- Ensure Feds Pay Their Fair Share –
  Except where prohibited by law
- Grantee is Responsible for Admin.
- Subawards use applicable Circular
BASIC GUIDELINES

- Allowable Costs
- Reasonable Costs
- Allocable Costs
- Applicable Credits
BASIC GUIDELINES (CONT.)

- Allowable Costs
- Necessary/Reasonable
- Allocable
- Legal
- Consistent Treatment
- Generally Accepted Accounting Principles (GAAP)
- Not Duplicated
- Net of applicable Credits
- Adequately documented
Composition of Cost

Total Cost = (Direct Costs + Indirect Costs) - (Credits)
Direct Costs

- **Direct Costs:**
  - Those That Can be Identified With a Particular Cost Objective.

- **Typical Direct Costs:**
  - Compensation of employees for the time devoted and identified specifically to the performance of the award.
  - Cost of materials acquired, consumed, or expended specifically for the purpose of the award.
  - Equipment and other approved capital expenditures.
  - Travel expenses incurred specifically to carry out the award.
Indirect Costs

- Cost Incurred for Common or Joint Purpose
- Not Readily Assignable to Cost Objectives Specifically Benefited
- Costs in the Grantee Department and Central Services
- Multiple Cost Pools May be Necessary
Indirect Costs – cont.

- Indirect Cost Pools Distributed Equitably
- Cost Allocation Plans and Indirect Cost Proposals.
- Limitation on Indirect or Administrative Costs.
  - Program Legislation May Limit Administrative/Indirect Cost Allowed.
  - Amounts not Recoverable Under one Federal Award May Not be Shifted to Another Federal Award.
CENTRAL SERVICE COST ALLOCATION PLANS

- General Description
- Definitions
  - Billed Services
  - Allocated Services
  - Operating Agency
Developing a Central Service Cost Allocation Plan

- Determine Accounting Base
- Identify Central Services/functions
- Calculate Total Cost for each service/activity
- Adjust for Unallowable Costs
- Add Allowable Costs not Included
- Compute Total Allowable Central Service Costs
- Determine form of Allocation
Costs to be Allocated/Basis

- Personnel-$50,000/# of Personnel (10% to City Planning)
- Accounting-$300,000/# of Trans. (1% to City Planning)
- Purchasing-$100,000/# of Purchase Orders (1% to City Planning)
- Audit - $10,000/# of Audit Hours (10% to City Planning)
# Sample Indirect Cost Rate Proposal - Multiple Rate Method

City Planning Department

For the Fiscal year June 30, XXXX

<table>
<thead>
<tr>
<th>Allocation Base Agencies</th>
<th>Personnel</th>
<th>Accounting</th>
<th>Purchasing</th>
<th>Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Services Furnished</strong></td>
<td><strong>Total Indirect Costs</strong></td>
<td><strong>Services Furnished by other Gov't.</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(but not billed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel</td>
<td>No. of Employees</td>
<td>$5,000</td>
<td>(5,000)</td>
<td></td>
</tr>
<tr>
<td>Accounting</td>
<td>No. of Transactions</td>
<td>3,000</td>
<td>(3,000)</td>
<td></td>
</tr>
<tr>
<td>Purchasing</td>
<td>No. of Purchase Orders</td>
<td>1,000</td>
<td>(1,000)</td>
<td></td>
</tr>
<tr>
<td>Audit</td>
<td>No. of Audit Hours</td>
<td>1,000</td>
<td>(1,000)</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td></td>
<td>$10,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Division/Bureau**

City Planning Department 2,000 1,000 600 200 200
Rate Methodology

- General
- Simplified Method
- Multiple Allocation Base Method
- Special Rates
### Sample Indirect Cost Rate Proposal - Multiple Rate Method

#### Services Furnished by Other Gov’t

<table>
<thead>
<tr>
<th>Allocation Base (a)</th>
<th>Indirect Costs (b)</th>
<th>Personnel</th>
<th>Accounting</th>
<th>Purchasing</th>
<th>Audit</th>
<th>Financial Mgmt</th>
<th>Admin. Services</th>
<th>Equipment</th>
<th>Total (f)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Services Furnished (But Not Billed) By Other Government Agents (c)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel</td>
<td>No. of Employees</td>
<td>$87,060</td>
<td>($87,060)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting</td>
<td># of Employees (e)</td>
<td>216,220</td>
<td>($216,220)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchasing</td>
<td>No. of Employees</td>
<td>22,211</td>
<td>($22,211)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit</td>
<td>No. of Audit Hours</td>
<td>12,210</td>
<td>($12,210)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Departmental Indirect Costs

<table>
<thead>
<tr>
<th>Department</th>
<th>Service Type</th>
<th>Total Cost</th>
<th>Personnel</th>
<th>Accounting</th>
<th>Purchasing</th>
<th>Audit</th>
<th>Financial Mgmt</th>
<th>Admin. Services</th>
<th>Equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director’s Office</td>
<td>Dir. Salr. &amp; Wages</td>
<td>$122,610</td>
<td>($122,610)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Management</td>
<td>Trans Processed</td>
<td>155,275</td>
<td>($155,275)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Admin. Services</td>
<td>Dir. Salr &amp; Wages</td>
<td>86,930</td>
<td>($86,930)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment Use</td>
<td>Uses of Equip.</td>
<td>16,800</td>
<td>($16,800)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal:</strong></td>
<td></td>
<td>$381,615</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Division / Bureau

<table>
<thead>
<tr>
<th>Division</th>
<th>Service Type</th>
<th>Total Cost</th>
<th>Personnel</th>
<th>Accounting</th>
<th>Purchasing</th>
<th>Audit</th>
<th>Financial Mgmt</th>
<th>Admin. Services</th>
<th>Equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Quality &amp; Noise</td>
<td></td>
<td>$47,480</td>
<td>$17,545</td>
<td>$41,495</td>
<td>$3,434</td>
<td>$1,089</td>
<td>$24,522</td>
<td>$23,776</td>
<td>$15,543</td>
</tr>
<tr>
<td>Community Environ. Control</td>
<td></td>
<td>$61,210</td>
<td>$12,920</td>
<td>$30,575</td>
<td>$3,434</td>
<td>$1,089</td>
<td>$24,522</td>
<td>$29,885</td>
<td>$10,659</td>
</tr>
<tr>
<td>Water Quality Management</td>
<td></td>
<td>$52,641</td>
<td>$11,997</td>
<td>$28,394</td>
<td>$2,289</td>
<td>$1,089</td>
<td>$24,522</td>
<td>$37,273</td>
<td>$10,659</td>
</tr>
<tr>
<td>Solid Waste Disposal</td>
<td></td>
<td>$96,847</td>
<td>$36,935</td>
<td>$87,362</td>
<td>$11,456</td>
<td>$6,777</td>
<td>$24,522</td>
<td>$46,423</td>
<td>$29,488</td>
</tr>
<tr>
<td>Parks and Forests</td>
<td></td>
<td>$91,119</td>
<td>$7,663</td>
<td>$28,394</td>
<td>$1,598</td>
<td>$2,166</td>
<td>$24,522</td>
<td>$17,918</td>
<td>$20,581</td>
</tr>
<tr>
<td><strong>Subtotal:</strong></td>
<td></td>
<td>$349,297</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**TOTALS:** $1,068,613 0 0 0 0 0 0 0 0 0 0 $1,068,613
<table>
<thead>
<tr>
<th>Divisions/Bureaus</th>
<th>Indirect Costs (a)</th>
<th>Direct Salaries &amp; Wages (b)</th>
<th>Indirect Cost Rates (c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Quality and Noise</td>
<td>$175,884</td>
<td>$206,320</td>
<td>85.25%</td>
</tr>
<tr>
<td>Community Environmental Ctrl</td>
<td>$175,294</td>
<td>$481,182</td>
<td>36.43%</td>
</tr>
<tr>
<td>Water Quality Management</td>
<td>$174,864</td>
<td>$410,771</td>
<td>42.57%</td>
</tr>
<tr>
<td>Solid Waste Disposal</td>
<td>$345,810</td>
<td>$643,782</td>
<td>53.72%</td>
</tr>
<tr>
<td>Parks and Forests</td>
<td>$196,761</td>
<td>$450,788</td>
<td>43.65%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,068,613</strong></td>
<td><strong>$2,192,843</strong></td>
<td></td>
</tr>
</tbody>
</table>
ICAP Documentation Requirements

- Proposed Rates
- Summary Table of CSCAP
- Copy of Financial Data
- Direct Base Costs
- Organization Chart
- Required Certification
- Other Relevant Information
Negotiation and Approval of ICAP

- Timely
- Use of Predetermined Rates
- Conditions of Re-Opening Negotiations
- Refunds
Types of Indirect Cost Rates

- **Predetermined**
  - Specific period.
  - Usually not subject to adjustment.
  - For grants or cooperative agreements only.
  - Negotiated with the cognizant agency.
  - Two to four year period.

- **Fixed (with carry forward)**
  - Same characteristics as a predetermined rate.
  - Over/under estimated costs carried forward.
Types of Indirect Cost Rates – cont.

- Provisional
  - Temporary rate.
- Final
  - Based on actual costs of past period.
  - Final audited rate not subject to adjustment.
Results of recent ICAP and National Reviews

- Emergency Relief Program
- ARRA Program
Potential Impact of ARRA/ER

- Distorting Costs
- Total Costs vs. Salaries & Wages
- OMB Guidance for States
FHWA Advice to State DOT

- Use a Conservative Approach
  - No “New Money”
  - Exclude Unallowable Costs from Indirects
  - Insure Equitable Allocation

- Use Direct Salaries and Wages

- Allocation of Indirect Costs to All Programs (FHWA, FTA, FRA, FAA, Maintenance, State, Local, etc)

- Plan Approval Required before Claiming Indirect Costs (FY 2010)
Questions?