

# Washington DC

## Cost Allocation Plans & Indirect Cost Rates

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Presented by:

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# Presentation Topics

- Defining Indirect Costs
- Basic Guidelines
- Tasks, Principles and Procedures
- New Uniform Guidance
- Indirect Cost Allocation Plan and Rates
- Affects on Allocated Costs

# 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

- Total costing of services
- Cost Recovery
  - Federal Programs
  - 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

## **Types of Overhead Costs:**

- Central Services
  - Allocated Support Services (SWCAP)
  - Billed Support Services including Fringe Benefits
- Department
  - Department Administration
  - Division
  - Cost Center

# 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 (SWCAP)
- 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

## **Generally Accepted Accounting Principles (GAAP):**

- Necessary and reasonable
- Allocated in accordance with relative benefit received
- Treated consistently as direct or indirect

# Tasks, Principles and Procedures

## **Federal Cost Recovery:**

- Uniform Grants Guidance 2 CFR Part 200 Sub Part E Cost Principles and Appendix VII.
- Implementation Guide – ASMB C-10 “Cost Principles and Procedures for Developing Cost Allocation and Indirect Cost Rates for Agreements With the Federal Government”

# New Uniform Guidance-Cost Principles - Subpart E



Significant  
Changes

# Overview of the Significant Changes

*What MAXIMUS will cover today*



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

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

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**Section 200.428** - *Collections of Improper Payments*

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

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

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**Section 200.466** - *Idle Facilities/Capacity*

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**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 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 200.428 - Collections of Improper Payments

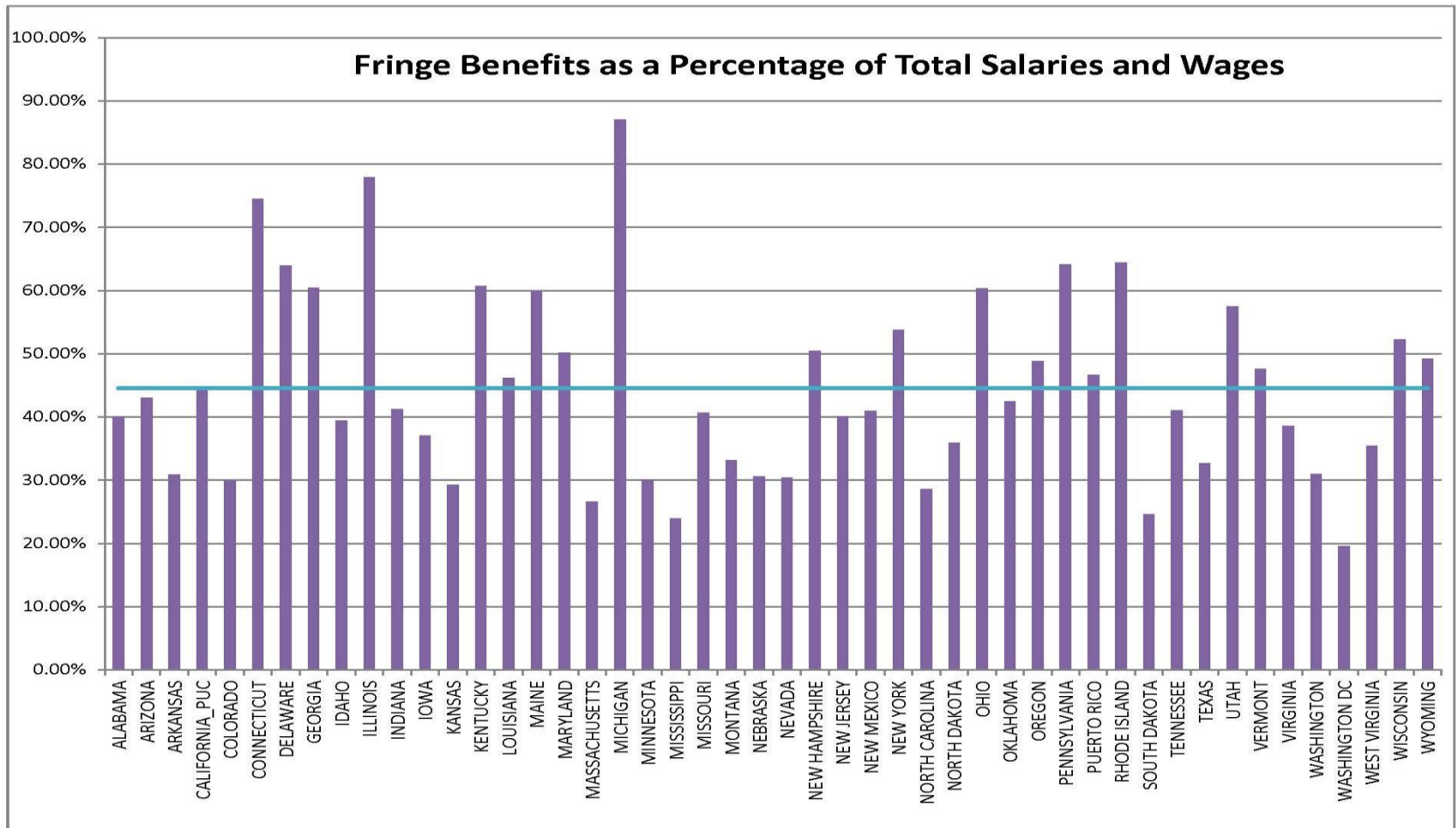
- The costs incurred by a non-Federal entity to recover improper payments are allowable as either direct or indirect costs, as appropriate.



# 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 200.430 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.)

(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 200.466 - 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



\*Source: Rt Hon Iain Duncan Smith MP speech on work, health and disability; August 24, 2015  
[www.reform.uk/publication/rt-hon-iain-duncan-smith-mp-speech-on-work-health-and-disability](http://www.reform.uk/publication/rt-hon-iain-duncan-smith-mp-speech-on-work-health-and-disability)

# 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



# When Must These Cost Principals be Implemented?

- 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 regarding UG

- ✓ 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 cognizant agency early on in the process.
- ✓ Work with your auditors and consultants to develop a Uniform Guidance readiness strategy.

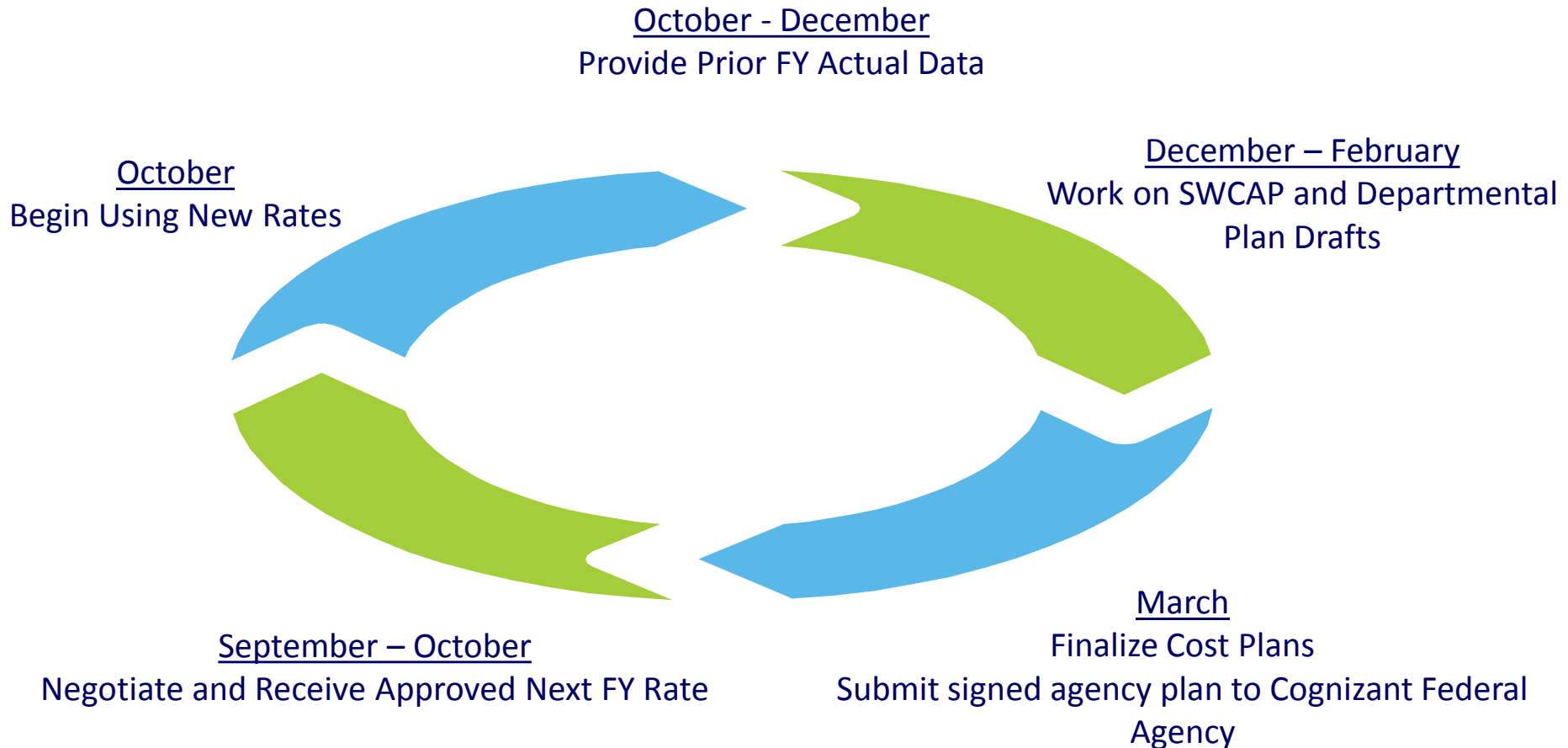


# Indirect Cost Allocation Plan and Rates

## Proposal Submission Requirements:

- Submitted annually by December 31<sup>st</sup> 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)

# Life Cycle of Indirect Cost Plans



# Specific Issues

## **District-Wide Cost Allocation Plan (DCAP):**

- Central Service Departments provide overhead support to all departments
  - Ex: Budget, Treasury, General Services
- Each Central Service Area uses the most accurate allocation base available to spread costs throughout the District
  - Ex: Square Footage, FTE, Transactions
- Summary of Fixed Costs is used in the departmental plans for DCAP Overhead costs

# 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
  - District-wide central services (DCAP)
  - 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

# 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**

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

# 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 Base (a)	Total Indirect Costs (b)	Services Furnished by Other Gov't Agencies				Departmental Costs (d)				
				Personnel	Accounting	Purchasing	Audit	Director	Financial Mgmt.	Admin. Services	Equipment	Total (f)
Services Furnished (But Not Billed) By Other Government Agencies (c)												
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>									
Departmental Indirect Costs												
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>									
Division/Bureau												
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
Parks and Forests			<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>

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

# MAXIMUS Example

## MAXCARS CAP

MaxCars - Cost Allocation Module  
12/08/2015 10:40:33 AM

**MAXIMUS**  
**VIRGINIA MINES, MINERALS & ENERGY**  
**Allocated Costs By Department**

VIRGINIA MINES, MINERALS & ENERGY  
2015 Version 1.0109-1  
Detail

Central Service Departments	MINES	MINERAL RESOURCE	LAND RECLAMATION	ENERGY	MINERAL MINING	GAS & OIL	ALL OTHER
STATEWIDE SVC	19,055	3,688	35,765	5,509	10,875	4,525	0
BLDG DEPR	15,184	0	51,206	0	0	0	0
EQUIP DEPR	47,172	112	0	0	56,181	0	0
ADMINISTRATION	0	0	0	0	0	0	0
DEPARTMENT ADMIN	153,767	17,931	277,532	21,915	78,759	37,505	0
FISCAL	88,425	61,528	313,406	43,265	69,711	31,718	339
GENERAL SERVICES	150,862	29,557	297,703	36,126	68,967	32,842	0
POLICY SUPPORT	16,834	13,773	13,773	65,412	13,773	48,870	0
PERSONNEL	43,373	9,521	78,283	11,637	22,215	10,578	0
DATA PROCESSING	40,416	17,617	351,303	7,254	31,829	0	59,514
INFO SERVICES	28,802	6,322	51,988	7,727	14,752	7,024	0
INTERNAL AUDIT	5,351	6,420	6,420	14,982	8,561	12,841	0
GARAGE	3,095	352	71	0	1,197	704	0
MINES ADMIN	321,586	0	0	0	0	0	0
RESOURCES ADMIN	0	446	0	0	0	0	0
Total Allocated	933,922	167,267	1,477,450	213,827	376,820	186,607	59,853
Roll Forward	0	0	0	0	0	0	0
Cost With Roll Forward	933,922	167,267	1,477,450	213,827	376,820	186,607	59,853
Adjustments	0	0	0	0	0	0	0
Proposed Costs	933,922	167,267	1,477,450	213,827	376,820	186,607	59,853



All Monetary Values Are \$ Dollars  
MAXCars © 2015 MAXIMUS, INC.  
Report Output Prepared By MAXIMUS

Schedule A.001  
Page 1

# Complex Issues-Department Plans & Rates

- Divisions that have indirect and direct activities
- Natural Resources Rates that have limits on Statewide Costs
- Dealing with Department mergers and spin offs
- Dealing with IT consolidations
- Requirement to calculate restricted rates (US ED)
- MTDC base for rates
- How do you minimize rate fluctuations?
- How do you share indirect cost recoveries between agencies in the District-wide Plan and agencies with the federal grants?

# Affects on Allocated Costs

- Total Allowable Expenditures
- Functional Distribution of Staff Time
- Variations in Usage (Consumption) of Central Service Departments
- Reorganization or Realignment of Departments
- Modification to Allocation Statistics

# Affects on Allocated Costs

## Total Allocable Expenditures



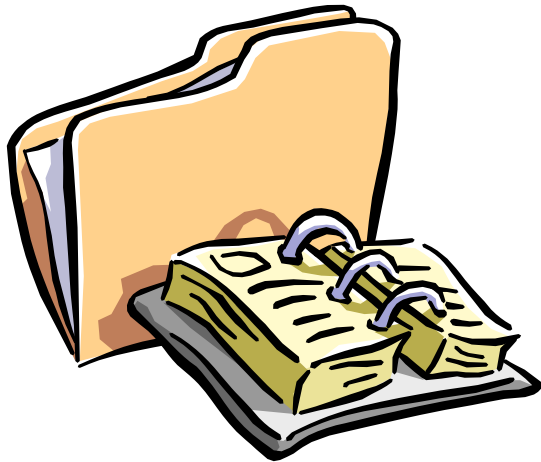
- *Increases* in Total Allowable Costs Generally Result in Increased Total Allocated Costs to Receiving Departments.
- *Reductions* in Total Allowable Costs Generally Result in Reduced Total Allocated Costs to Receiving Departments.

*As of November 11, 2015*

# Affects on Allocated Costs

## Activity Distribution of Staff Time

- *Any Modification* has an Impact on Allocated Costs.
- Only Applies to Central Services Departments with Multiple Activities.
  - Increased Effort Generally Indicates Higher Allocation of Cost to Receiving Departments.
  - Reduced Effort Generally Indicates a Reduction Allocation of Cost to Receiving Departments.
  - Changes in Departmental Activities along with Changes in Allowable Expenses Produces an Increase or Decrease in allocated costs



# Affects on Allocated Costs

## Variations in Usage (Consumption) of Central Service Departments

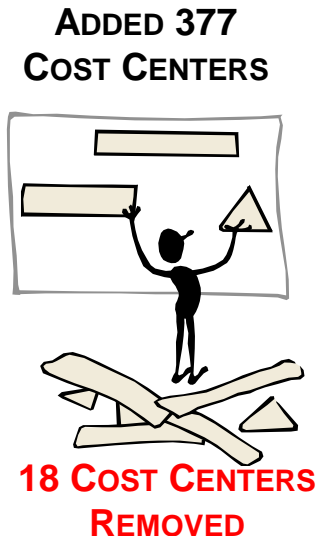
- *Increased* Demand for Services May Result in Greater Proportionate Share of Allocated Cost.
- *Reduced* Demand for Services May Result in Smaller Proportionate Share of Allocated Cost.
  - However, a Unit Can Reduce Demand for Service and Still be Allocated More than Prior Year if Total Proportionate Amount Does not Decrease by Same Rate. May Reduce Usage but Still Pay More. (Converse True As Well).



# Affects on Allocated Costs

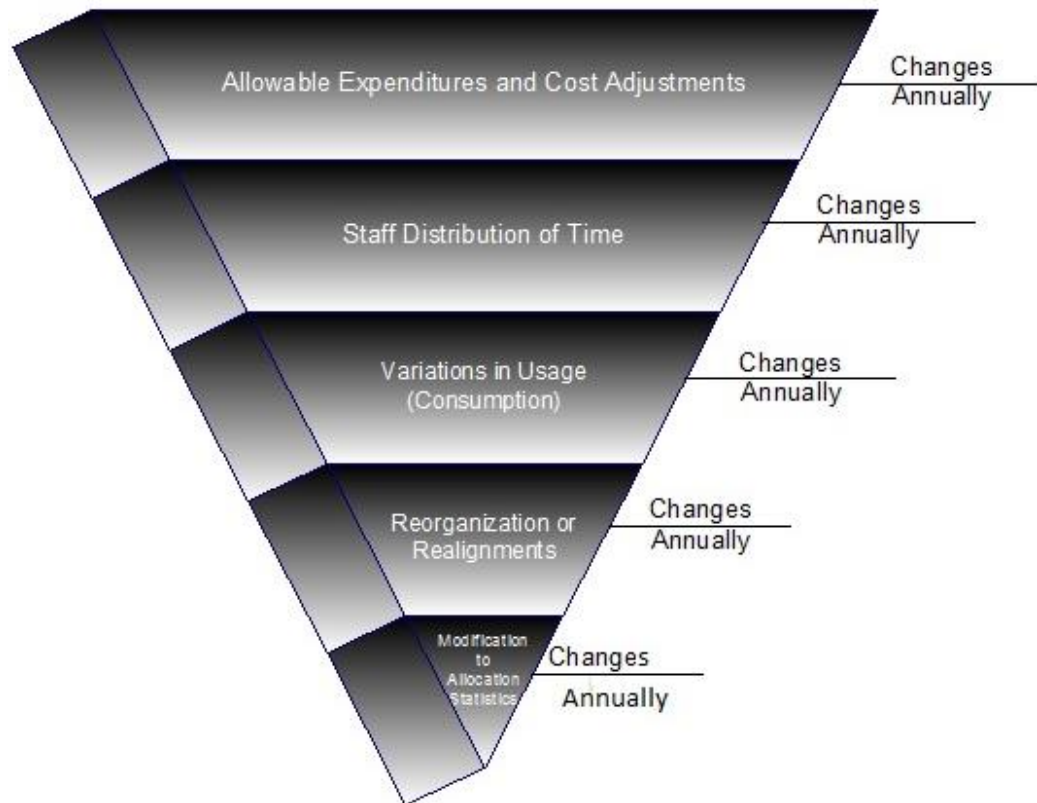
## Reorganization or Realignments of Departments

- Reorganizations Have the Following Impacts on Allocated Costs:
  - Total Budget Cost Revised Immediately.
    - Increased Budgets
      - Does not always equate to increased allocations.
    - Decreased Budgets
      - Does not always equate to reduced allocations.
  - Impacts of Reorganizations are Difficult to Predict.



# Affects on Allocated Costs

## Recap



# Expectations of Dept. Management

- Meet and Discuss changes from previous FY
- Provide Accurate Information
  - Reflective of the Fiscal Year being Reviewed
  - Reviewed by Director or Manager prior to Submission
  - Available in Electronic Format and/or Hard Copy
  - Have knowledge of Specially Funded, District Match, Appropriations
  - Review Staff Time Allocations



# 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 by March 31<sup>st</sup>
  - Federal agency approval in a “timely” basis
  - Usually at least six months until receipt of rate Agreement

# Indirect Cost Allocation Plan and Rates

## **MAXIMUS's 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

# 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