

**Cost Allocation Guide  
for  
State and Local Governments**



**U.S. DEPARTMENT OF EDUCATION**

**Indirect Cost Group  
Financial Improvement and Post Audit Operations  
Office of the Chief Financial Officer**

**September 2009**

**U.S. Department of Education**

Arne Duncan  
*Secretary*

Office of the Chief Financial Officer  
Thomas P. Skelly  
*Delegated to perform the functions of the  
Chief Financial Officer*

Financial Improvement and Post Audit Operations  
Linda A. Stracke  
*Director*

Indirect Cost Group  
Mary G. Gougisha  
*Director*

September 2009

This publication is in the public domain. Authorization to reproduce it in whole or in part is granted. While permission to reprint this publication is not necessary, the citation should be: U.S. Department of Education, Office of the Chief Financial Officer, *Cost Allocation Guide for State and Local Governments*, Washington, D.C.

This publication is available on the Department's Website at:  
<http://www.ed.gov/about/offices/list/ocfo/fipao/icgindex.html>

On request, this publication is available in alternate formats, such as Braille, large print, audiotape, or computer diskette. For more information, please contact the Department's Alternate Format Center at (202) 260-0852 or (202) 260-0818.

**CONTENTS**

	<u>Page(s)</u>
<b>FOREWORD.....</b>	<b>3</b>
<b>ACKNOWLEDGEMENTS.....</b>	<b>5</b>
<b>SECTION I: General Information.....</b>	<b>7-9</b>
A. Authority	
B. Definitions	
C. Types of Indirect Cost Rates	
D. Approval and Negotiation of Indirect Cost Rates	
E. Disputes and Records Retention	
<b>SECTION II: Guidelines for Preparing Indirect Cost Rate Proposals.....</b>	<b>11-16</b>
A. Basic Steps	
B. Determination of Indirect Cost Rates	
C. Detailed Steps	
D. Submission of Proposals	
E. Cost Allocation Plans	
<b>SECTION III: Reimbursement of Indirect Costs.....</b>	<b>17-21</b>
A. Requirements for Reimbursement	
B. Application of Indirect Cost Rates	
C. Indirect Cost Limitations	
D. Administrative Cost Limitations	
<b>SECTION IV: Indirect Cost Rate Methods.....</b>	<b>23-27</b>
A. General Information	
B. Simplified Method	
C. Multiple Allocation Base Method	
D. Special and Restricted Indirect Cost Rates	
E. Restricted Indirect Cost Rates – Questions & Answers	
<b>SECTION V: State and Local Agencies Responsibilities.....</b>	<b>29</b>
A. General	
B. State Educational Agency Procedures	
C. Subrecipients	

**SECTION VI: Time Reporting Requirements..... 31-32**

- A. General Information
- B. Time and Attendance Reporting
- C. Semi-Annual Certifications
- D. Personnel Activity Reports
- E. Substitute Systems
- F. Policies and Procedures

**SECTION VII: Common Indirect Cost Issues..... 33-36**

- A. Compensation
- B. Unallowable Costs
- C. Credits
- D. Interest
- E. Depreciation/Use Allowance
- F. Subawards
- G. Unsupported Costs

**SECTION VIII: Questions and Answers..... 37-40**

- A. Application of Principles
- B. Federal Cognizance
- C. Allocation of Costs
- D. Subawards
- E. Other Items

**APPENDICES: MODELS, EXAMPLES AND REFERENCES..... 41-101**

- I. State Educational Agency Model Indirect Cost Rate Proposal
- II. Indirect Cost Rate Agreement
- III. Local Educational Agency Model Indirect Cost Plan
- IV. Local Educational Agency Delegation Agreement
- V. Model Cost Policy Statement
- VI. Certificate of Indirect Costs
- VII. Website References
- VIII. Semi-Annual Certification Form and Personnel Activity Report
- IX. Documentation Checklist



## UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE CHIEF FINANCIAL OFFICER

### FOREWORD

Office of Management and Budget (OMB) Circular A-87 establishes principles and standards for determining costs on Federal awards carried out through agreements with State and Local Governments. This Cost Allocation Guide provides assistance to State and Local Governments determining indirect cost and allocation methodologies in accordance with OMB Circular A-87 and agency regulations. In the pages following, instructions are provided for the preparation of indirect cost rate proposals and the treatment of certain costs.

Financial stewardship is one of the cornerstones supporting the partnership between federal agencies and state governmental units, while we work to advance education in America today. The environment of change in technology, administrative flexibility and business management provides us with a challenging opportunity to balance innovations with oversight policy. Maintaining adequate supporting records and implementing proper internal safeguards are critical components of financial management.

This Guide provides direction on financial management and oversight practices related to cost allocation. It should be helpful in strengthening our partnership in today's environment of accountability and transparency.

Thomas P. Skelly  
Delegated to perform the functions of the  
Chief Financial Officer



## ACKNOWLEDGEMENTS

The *Cost Allocation Guide for State and Local Governments* represents a major initiative to provide key standards and practices in the cost determination area.

State and local educational agencies provided valuable input for the contents of this Guide. U.S. Department of Education program offices provided important details to assist grantees. Nicholas Jougras, a retired federal employee and consultant, provided significant assistance in organizing and assembling the materials. Over the last two years, the Indirect Cost Group has worked extensively to ensure the Guide contains current information and addresses the needs of grantees. The current Indirect Cost Group members are Nelda Barnes; Paul Brickman; David Gause, Jr.; Hanan Hardy; Brandi Jefferson; Richard Koris; Phillip Luster; John Masaitis, Katrina McDonald and Mary Gougisha.

The Office of the Chief Financial Officer expresses gratitude and appreciation to all who contributed to the completion of the Guide.





## SECTION I

### GENERAL INFORMATION

#### A. Authority

This Cost Allocation Guide for State and Local Governments is based on the authority included in the Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* and Education Department General Administrative Regulations (EDGAR).

OMB Circular A-87 (available at 2 Code of Federal Regulations (CFR) 225) establishes the standard that one federal agency is responsible for the review, negotiation and approval of indirect cost rate proposals. As provided in EDGAR at 34 CFR 76.561, the Secretary approves an indirect cost rate for a state agency and subgrantee other than a local educational agency. Each state educational agency, on the basis of a plan approved by the Secretary, shall approve an indirect cost rate for each local educational agency that makes such a request. In the U.S. Department of Education (ED), the Secretary has delegated cost allocation responsibilities to the Chief Financial Officer.

#### B. Definitions

For purposes of this Guide, the following definitions of key terms apply:

**Central Service Cost Allocation Plan** - the documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a governmental unit on a centralized basis to its departments and agencies.

**Cognizant Agency** - federal agency with the largest dollar value of awards to an organization and that is responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals on behalf of all federal agencies.

**Cost Allocation Plan** – document that identifies, accumulates, and distributes allowable direct and indirect costs to cost objectives. The plan also identifies the allocation methods used for distribution to cost objectives, on the basis of relative benefits received.

**Governmental Unit** – the entire State, local or federally recognized Indian tribal government, including components.

**Grantee** - the organization to which a grant is awarded and which is accountable for the use of the funds provided. The grantee is the entire legal entity even if only a particular component of the entity is designated in the grant award document.

**Indirect Costs** - costs that have been incurred for common or joint purposes. Indirect costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective.

**Indirect Cost Rate** - device for determining, in a reasonable manner, the proportion of indirect costs each program should bear. The indirect costs are included in the numerator (pool) and the direct costs are included in the base (denominator). The result is expressed as a percentage (rate) of the indirect costs to direct costs.

**Indirect Cost Rate Proposal** - documentation prepared by a governmental unit or component thereof to substantiate its request for the establishment of an indirect cost rate.

**Local Educational Agency (LEA)** - A public board of education or other public authority legally constituted within a state for either administrative control or direction, of public elementary or secondary schools in a city, county, township, school district, or other political subdivision of a state; or such combination of school districts or counties a state recognizes as an administrative agency for its public elementary or secondary schools.

**Local Government** - a county, municipality, city, town, township, local public authority, school district, special district, intrastate district, council of governments (whether or not incorporated as a non-profit corporation under state law), any other regional or interstate government entity, or any agency or instrumentality of a local government.

**State** - any of the several States of the United States, District of Columbia, Commonwealth of Puerto Rico, any territory or possession of the United States, or any agency or instrumentality of a State exclusive of local governments.

**State Educational Agency (SEA)** - the state board of education or other agency or office primarily responsible for the supervision of public elementary and secondary schools in a state. In the absence of this office or agency, it is an office or agency designated by the Governor or state law.

**Subaward** – an award made by a recipient to an eligible subrecipient. The term includes financial assistance provided by any legal agreement (including contracts) but does not include the procurement of goods and services.

**Subgrantee** - the organization to which a subgrant is awarded and is accountable to the prime grantee for the use of the funds provided.

### **C. Types of Indirect Cost Rates**

**Provisional Rate** - a temporary indirect cost rate applicable to a specified period which is used for funding, interim reimbursement and reporting indirect costs on federal awards pending the establishment of a “final rate” for that period.

**Final Rate** - an indirect cost rate applicable to a specified past period, which is based on the actual allowable costs of the period. A final rate is not subject to adjustment.

**Fixed Rate** – an indirect cost rate calculated similarly to a predetermined rate, except the difference between the estimated costs and the actual costs of the period is carried forward as an adjustment to the rate computation of a subsequent period.

**Predetermined Rate** – an indirect cost rate applicable to a specified current or future period, usually the governmental unit’s fiscal year. This rate is based on an estimate of the costs to be incurred during the period. Except under very unusual circumstances, a predetermined rate is not subject to adjustment. Because of legal constraints, predetermined rates are not permitted for federal contracts; they may, however, be used for grants or cooperative agreements

**Unrestricted vs. Restricted Rates** – Unrestricted indirect cost rates are those calculated for use on programs without limitations on indirect costs. Certain ED grant programs have a statutory requirement prohibiting the use of federal funds to supplant non-federal funds. These programs require the use of a restricted indirect cost rate, computed in accordance with 34 CFR 76.564-76.569. Generally, adjustments to the unrestricted rate calculation are made and result in a lower rate to claim indirect cost reimbursement on restricted rate programs.

#### **D. Approval and Negotiation of Indirect Cost Rates**

The Indirect Cost Group will negotiate and approve indirect cost rates submitted by entities for which ED is the cognizant federal agency. Local Educational Agencies shall submit their indirect cost rate proposals to State Educational Agencies for approval (refer to Section V for procedures). In situations where a local government receives funds only as a subrecipient, the prime recipient will be responsible for approval of the subrecipient's indirect cost rate proposal.

The indirect cost rate approval will be formalized by an agreement signed by ED's Director of the Indirect Cost Group and an authorized representative of the governmental unit. The rate agreements are distributed to grantees and the U.S. Department of Health and Human Services for publication on its website. An example of the agreement is shown in Appendix II of this Guide.

#### **E. Disputes and Records Retention**

If a dispute arises during the negotiation, the concern may be addressed to ED’s Chief Financial Officer. ED’s Appeals Board has authority to review disputes involving funds recovery actions under specific programs only.

In accordance with the provisions of 34 CFR Part 74, Subpart D - Retention and Access Requirements for Records, records shall be retained for 3 years. For required submissions, the retention period starts from the date of such submission. For submissions that are not required, the retention period starts from the end of the fiscal year covered by proposal.



## SECTION II

### GUIDELINES FOR PREPARING INDIRECT COST RATE PROPOSALS

#### A. Basic Steps

Indirect Cost Rate Proposals require supporting schedules and documentation. The following steps are suggested in preparing an indirect cost rate proposal. An indirect cost rate proposal model for an SEA is included in Appendix I. An LEA Plan model is included in Appendix III. The models should be tailored to the organization's structure.

In beginning the process of calculating an indirect cost rate, the governmental unit should consider and review the following:

- Organizational structure
- Level of federal funding
- Requirements of OMB Circular A-87 and EDGAR
- Reports generated from the accounting system
- Cost policies related to direct and indirect cost charging
- Availability of data on square footage, number of transactions, number of employees, etc.
- Additional effort and cost required to achieve a certain degree of accuracy
- Need for a restricted indirect cost rate (see Section IV)

#### B. Determination of Indirect Cost Rates

The two basic methods for calculating indirect cost rates include the Simplified and the Multiple Allocation Base Methods. These two methods and special (or restricted) indirect cost rates are discussed in further details in Section IV.

OMB Circular A-87 stresses the need for federal agencies to work with state agencies on; (1) streamlining accounting processes; (2) reducing the burden of maintaining systems for charging administrative costs to federal programs; and (3) simplifying the preparation and approval of cost allocation plans. Organizations are encouraged to use the simplified method whenever possible and to avoid exceeding the complexity of the multiple allocation base method. ED considers double iterative variations of the simplified and multiple allocation base methods as burdened with extraneous detail that encumbers the review and approval process.

In order to prepare an indirect cost rate proposal, total costs, regardless of funding source, must be classified into one of the following categories: direct, indirect, excluded or unallowable. The following detailed steps will guide preparation of the proposal.

## **C. Detailed Steps**

### **1. Determine Total Expenditures**

Information from the grantee's accounting system should be used to determine total expenditures. Total costs, regardless of the funding source should be identified for each function and object class (expenditure type). Federal and non-federal outlays should be determined.

### **2. Identify Unallowable and Excluded Costs**

Before calculating an indirect cost rate, the organization should review OMB Circular A-87 to determine which costs are unallowable or to be excluded from the indirect cost pool and/or distribution base. OMB Circular A-87 requires all activities which benefit from the governmental unit's indirect costs, including unallowable activities and donated services, to receive an appropriate allocation of indirect costs. All direct costs that are supported by indirect activities, including unallowable costs (e.g., fund raising and lobbying) and the value of donated services will be included in the base when calculating indirect cost rates. Examples of excluded costs are equipment and subawards.

Unallowable costs include debt service, fines and penalties, contingencies, and election expenses. The indirect cost rate calculation and application should remove all unallowable costs.

The indirect cost rate calculation should exclude pass-through funds (funds provided to the prime for specific secondary recipients), subaward expenditures exceeding \$25,000 and food purchases. Other distorting items should also be excluded. The same costs should be excluded when calculating the indirect cost reimbursement. Such costs are excluded when calculating the rate and indirect cost reimbursement because the activities require minimal administrative support.

Below are two examples of funds awarded to a state agency. The examples explain when costs should be included in the direct cost base (denominator) or excluded.

#### **Example 1**

*1. The SEA receives a \$1,000,000 award from a federal agency. The purpose of the award is to have specific school districts conduct seminars on a new federal program. The SEA awards \$100,000 to each of 10 school districts. Each of the school districts is responsible for payroll, issuing contracts and purchase orders, acquiring and paying for supplies, reimbursement for travel, and other similar administrative costs. The only efforts the SEA spends on these awards are providing electronic payments and reviewing end-of-year financial reports. The \$1,000,000 award is a "pass-through" and therefore excluded. There is minimal benefit these funds received from the SEA. For each school district, the expenditures are part of the base for calculating the indirect cost rate.*

## Example 2

2. A state agency receives a \$500,000 grant from a corporate endowment to improve mathematics instruction. The endowment does not allow indirect cost reimbursement under its grants. The agency hires five full-time staff with the funds. The state agency pays the salaries, fringe benefits, local travel, supplies, and other staff expenses. All expenses incurred under this endowment grant are included in the state agency's base (except distorting items such as equipment purchases). It does not matter whether the endowment allows indirect costs or not. These costs benefit from the state agency's allowable indirect costs (payroll, personnel, procurement, data processing, etc.). Therefore, in accordance with OMB Circular A-87 the costs are included in the base. If not, the state agency's other programs absorb an unfair portion of the costs of administering the endowment grant.

### 3. Determine Direct Costs

Direct costs are those that can be identified specifically with a particular cost objective. The direct costs of a federal award can be specifically identified to the program and may be charged directly to the program. Examples of direct costs that may be charged to a federal program include the following:

- Compensation of the employees who works on the program;
- Supplies and materials used for the program;
- Equipment purchased and used for the program; and
- Travel expenses incurred specifically to carry out the program.

### 4. Determine Indirect Costs

OMB Circular A-87 defines indirect costs as those that are incurred for a common or joint purpose benefiting more than one cost objective. In addition, indirect costs cannot be readily identified as benefiting a particular cost objective. Examples of indirect costs include the salaries and expenses for the following:

- Data Processing
- Accounting
- Personnel
- Purchasing

Indirect costs are normally charged to federal programs through the indirect cost rate. Grantees must be consistent in treating costs as direct or indirect under federal awards. Once a cost is treated as direct or indirect, it should be treated that way for all projects and activities, regardless of the source of funding.

## **5. Reconcile Proposal to Financial Statements/Expenditure Reports**

Reconcile amounts in the indirect cost rate proposal to the audited financial statements or final expenditure reports. The organization is expected to provide support or explanation for any material variances.

## **6. Select the Distribution Base**

The direct cost base (distribution base) selected should be the one best suited for assigning indirect costs to all cost objectives in accordance with the relative benefits received. The distribution bases commonly used are listed below. A restricted rate must be calculated using a modified total direct cost base. Organizations preferring to apply the indirect cost rate to a salaries and wages base, may use a conversion calculation. The conversion calculation allows a restricted indirect cost rate to be based on and applied to salaries and wages.

Commonly used distribution bases include the following:

- Direct salaries and wages including applicable fringe benefits
- Direct salaries and wages excluding fringe benefits
- Total direct costs excluding distorting items such as equipment purchases, the portion of each subaward in excess of \$25,000, alterations/renovation, pass-through funds, or any other cost which may distort the distribution of indirect costs to benefiting activities. This base is referred to as a modified total direct costs (MTDC) base.

## **7. Computation of Indirect Cost Rate**

Using the results of Steps 1 - 6 above and the indirect cost proposal formats shown in the Appendices, compute the appropriate indirect cost rate. For programs requiring the use of a restricted indirect cost rate, the grantee must calculate the restricted rate in accordance with the guidance provided in Section IV.

## **8. Complete Indirect Cost Rate Proposal Documentation Checklist**

The following information is required to be submitted, on an annual basis, with the indirect cost rate proposal:

- Indirect cost rate calculation detailing total direct and indirect expenses by function and cost category, subsidiary worksheets and carry-forward calculations.



- Reconciliation of indirect cost rate proposal to audited financial statements, expenditure reports or approved budgets.
- The amount of direct costs incurred on federal awards. The costs should be detailed reflecting salaries, wages, fringe benefits and other direct costs.
- A schedule of fringe benefits and payroll taxes by type and amount with an explanation of the allocation to benefiting activities.
- Certificate of Indirect Costs signed on behalf of the state or local government agency/department by an agency official at the Chief Financial Officer level or above.
- Cost Policy Statement that provides background information and identifies cost charging policies and practices.
- Organization chart showing the structure of the agency during the proposal period.
- Capitalization policy, along with equipment use allowance or depreciation schedules.
- Financial data (audited financial statements, formal budgets, accounting reports, etc.) upon which the rate is based. Adjustments resulting from the use of unaudited data will be recognized, where appropriate, in a subsequent proposal.
- Approved Statewide Cost Allocation Plan schedule, if state central service costs are included in the indirect cost rate proposal.
- A listing of grants and contracts identified by Catalog of Federal Domestic Assistance (CFDA) number, and by federal agency, total dollar amount, and the period of performance. If applicable, any indirect cost limitations, such as restricted or ceiling rates or amounts restricted by administrative or statutory regulations, should be identified for each grant or contract.
- Details on any significant accounting changes that are planned and may impact the proposed rate.
- Schedule of unused leave payments to separating employees.
- Schedule showing the details of adjustments to the unrestricted rate in order to calculate the restricted rate.
- Schedule of all subawards, including names and amounts. The schedule should reflect the amounts over \$25,000 that are excluded from the base calculation.

#### **D. Submission of Proposals**

An indirect cost rate proposal, with supporting documentation (see Appendix IX for checklist), must be developed (and when required) submitted on an annual basis to ED. The proposal should be submitted no later than six months after the close of the governmental unit's fiscal year, unless an exception is approved by ED. One hard copy of the indirect cost rate proposal should be submitted to the following address:

U.S. Department of Education  
OCFO/ FIPAO/ ICG  
400 Maryland Avenue, SW  
Washington, D.C. 20202-4450

ED accepts electronic submissions of indirect cost rate proposals and supporting documentation. Electronic submissions should be in a format compatible with the software used by the Indirect Cost Group and spreadsheets should be formatted for printing on a single "8½ by 11" page. Prior to providing the submission electronically, grantees should contact the Indirect Cost Group.

Situations may exist whereby grantees are required to submit a restricted indirect cost rate proposal and ED is not the cognizant federal agency. Grantees must submit the unrestricted and restricted indirect cost rate proposals to the cognizant federal agency. The cognizant federal agency will coordinate the review and approval process with the Indirect Cost Group.

#### **E. Cost Allocation Plans**

Cost Allocation Plans (CAPs) are generally submitted in lieu of an indirect cost rate proposal. A CAP may be necessary when substantial direct costs of programs consist of joint or common cost distributions and/or when the nature of the grantee's activities is such that direct costs cannot be adequately determined with reasonable precision. In such situations, use of a CAP may be more suitable than an indirect cost rate. A CAP (if required) should be submitted to the cognizant federal agency. Supporting documentation (described above in C.8.) should accompany the CAP.

## SECTION III

### REIMBURSEMENT OF INDIRECT COSTS

#### A. Requirements for Reimbursement

OMB Circular A-87 outlines the factors to consider in determining the allowability of costs. In order to be reimbursed on federal awards, costs must meet the following criteria:

1. Be necessary and reasonable for proper and efficient performance and administration of federal awards.
2. Be allocable to federal awards.
3. Be authorized or not prohibited under state or local laws or regulations.
4. Conform to any limitations or exclusions set forth in these principles, federal laws, terms and conditions of the federal award, or other governing regulations as to types or amounts of cost items (e.g., use of restricted rates as defined by 34 CFR 75.563 and 76.563).
5. Be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the governmental unit.
6. Be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.
7. Be determined in accordance with generally accepted accounting principles.
8. Not be included as a cost or used to meet cost sharing or matching requirements of any other federal award in either the current or a prior period, except as specifically provided by federal law or regulation.
9. Be the net of all applicable credits.
10. Be adequately documented.

**B. Application of Indirect Cost Rates**

The dollar amount of indirect costs allocable to a federal award will be determined by applying the approved indirect cost rate to the direct cost base. For purposes of illustrating the application of indirect cost rates, assume an ED grantee has approved indirect cost rates as follows:

<u>Type</u>	<u>From</u>	<u>To</u>	<u>Rate</u>	<u>Base</u>	<u>Location</u>	<u>Coverage</u>
Fixed	07/01/07	06/30/08	17.0%	(1)	All	Unrestricted
Fixed	07/01/07	06/30/08	9.0%	(1)	All	Restricted (2)

(1) Total direct costs less equipment purchases, alterations and renovations, pass-through funds, and the portion of each subaward exceeding \$25,000.

(2) All federal programs which require the use of a restricted rate as defined in 34 CFR 75.563 and 34 CFR 76.563.

From July 1, 2007 through December 31, 2007, the grantee has incurred the following costs on ED grants:

	<u>Unrestricted</u> <u>Grants</u>	<u>Restricted</u> <u>Grants</u>	<u>Totals</u>	<u>Notes</u>
Personnel	\$198,000	\$267,300	\$465,300	1
Other Direct	126,000	187,200	313,200	2
Equipment	26,100	15,300	41,400	3
Subcontracts	65,700	89,100	154,800	4
Pass-through	<u>1,276,200</u>	<u>2,349,000</u>	<u>3,625,200</u>	5
Total Direct	<u>\$1,692,000</u>	<u>\$2,907,900</u>	<u>\$4,599,900</u>	

Notes:

1. Includes fringe benefits.
2. Includes travel, supplies, equipment with a unit cost of less than \$5,000, and other costs that generate or benefit from the organization's indirect costs.
3. Equipment purchases with unit costs of \$5,000 or more.
4. Subaward under "Unrestricted" grant - total \$65,700. The first \$25,000 is included in the base. The remaining \$40,700 is excluded from the base.
5. Pass-through amounts represent funds provided to the prime grantee for specific secondary recipients.

Subaward expenses under restricted awards:

	<u>Expenses</u>	<u>Included in</u> <u>Base</u>
Subaward A	\$24,300	\$24,300
Subaward B	<u>64,800</u>	<u>25,000</u>
Total	<u>\$89,100</u>	<u>\$49,300</u>

The amounts subject to the indirect cost rate are shown below. These are amounts to which the indirect cost rate is applied. The rate must be applied consistently with the calculation methodology. The following illustration reflects how indirect costs should be billed using the rates calculated on the previous page:

	<u>Unrestricted Grants:</u>		<u>Restricted Grants:</u>	
	<u>Total Costs</u>	Subject to <u>Indirect</u>	<u>Total Costs</u>	Subject to <u>Indirect</u>
Personnel	\$198,000	\$198,000	\$267,300	\$267,300
Other Direct	126,000	126,000	187,200	187,200
Equipment	26,100	0	15,300	0
Subcontracts	65,700	25,000	89,100	49,300
Pass-through	<u>1,276,200</u>	<u>0</u>	<u>2,349,000</u>	<u>0</u>
Totals	<u>\$1,692,000</u>	<u>\$349,000</u>	<u>\$2,907,900</u>	<u>\$503,800</u>
Indirect Cost Rate		<u>17.0%</u>		<u>9.0%</u>
Indirect Cost Billings		<u>\$59,330</u>		<u>\$45,342</u>

### C. Indirect Cost Limitations

Reimbursement of indirect costs is subject to the availability of funds and statutory or administrative restrictions. Such restrictions include the supplement-not-supplant provision (restricted rates) and the 8% indirect cost rate limitation on training grants.

When the amount allowable under a limitation is less than the amount otherwise allowable as indirect costs per OMB Circular A-87, the amount unrecoverable as indirect costs may not be shifted to another federal award. ED regulations further state the unrecovered indirect costs cannot be used for matching or cost sharing purposes or charged as direct costs to other awards.

#### **D. Administrative Cost Limitations**

Some ED awards have statutory or regulatory limitations on the costs of administration. The costs of administration are those portions of reasonable, necessary and allowable costs associated with the overall project management and administration. These costs can be both personnel and non-personnel, and both direct and indirect. Therefore, the limitation applies to the combined claims for indirect costs and direct administration costs. Generally, direct administration costs differ from indirect charges in that the latter are considered organization-wide costs.

Examples of direct administration are salaries, benefits, and other expenses of the recipient's staff that perform the following functions:

- overall program management, program coordination, and office management functions including the salaries and related costs of the executive director, project director and/or project evaluator
- preparing program plans, budgets schedules, and related amendments
- monitoring of programs, projects, subrecipients and related systems and processes
- developing systems and procedures, including management information systems, for assuring compliance with program requirements
- preparing reports and other documents related to the program requirements
- evaluating program results against stated objectives
- divisional level administrative services such as program specific accounting, auditing or legal activities

Examples of non-labor costs for direct administration include:

- costs for goods and services required for administration of the program, including the rental or purchase of equipment, utilities, office supplies, postage, and rental and maintenance of office space
- travel costs incurred for official business in carrying out program management

The following illustration reflects how administrative cost limitations may affect an award. In the illustration, assume a 15% administrative cost limitation. The limitation is applied to the total award. The effect on the indirect cost reimbursement is shown below:

Grant/Contract Funds Available	<u>\$1,000,000</u>
Administrative Cost Limitation at 15%	<u>\$ 150,000</u> (1)
Direct Program Administrative Cost Incurred	\$ 112,500
Allowable Indirect Cost Reimbursement	<u>37,500</u> (2)
Total Administrative Cost Reimbursement	<u>\$ 150,000</u>

Indirect Costs:

Modified Direct Total Costs (MTDC) Incurred on Grant/Contract (including costs for Direct Administration)	<u>\$ 450,000</u>
---	-------------------

Indirect Costs Calculation (Rate of 10% of MTDC)	<u>\$ 45,000</u> (2)
---	----------------------

- (1) Grantees must note the administrative cost limitation of \$150,000 applies to both (combined) direct administration and indirect costs.
- (2) Although indirect costs are calculated at \$45,000 as a result of applying the negotiated rate to MTDC, the indirect costs reimbursement is limited to \$37,500. The overall administrative cost limitation of \$150,000 minus the \$112,500 in direct program administrative costs leaves a balance of \$37,500 for indirect cost reimbursement. The allowable amount of direct program administrative cost is determined first and secondly, the allowable amount of indirect cost reimbursement is determined.





## SECTION IV

### INDIRECT COST RATE METHODS

#### A. General Information

OMB Circular A-87 prescribes certain methods of allocating indirect costs and determining indirect cost rates. The methods to be used depend upon the governmental unit's number of major functions and how the functions benefit from the indirect costs. In this section, the Simplified Method, Multiple Allocation Base Method and Special/Restricted Indirect Cost Rates are discussed.

#### B. Simplified Method

The Simplified Method is used when a grantee has only one major function encompassing a number of individual projects or activities and the level of federal awards is relatively small. It is applicable whenever a grantee's major functions benefit from its indirect costs to approximately the same degree. The allocation of indirect costs may be accomplished by (1) classifying the grantee total costs for the base period as either direct or indirect; and (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base.

Both the direct costs and the indirect costs shall generally exclude distorting items and unallowable costs. However, unallowable costs must be included in the distribution base if such costs represent activities benefiting from the indirect expenses.

The indirect cost rate is used to distribute indirect costs to individual programs, functions or activities. The distribution base may be (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, the portion of each subaward in excess of \$25,000, etc.); (2) direct salaries and wages; or (3) another base which results in an equitable distribution.

#### C. Multiple Allocation Base Method

The Multiple Allocation Base Method is used whenever a grantee's indirect costs benefit its major functions in varying degrees. Such costs are accumulated into separate cost groupings. Each grouping constitutes a pool of expenses that are of like character in terms of the functions benefited and in terms of the allocation base which best measures the relative benefits received. The number of separate groupings should be held within practical limits, taking into consideration the materiality of the amounts involved and the degree of precision needed.

Actual conditions must be taken into account in selecting the base to be used in allocating the expenses in each grouping. When an allocation can be made by assignment of a cost grouping directly to the function benefited, the allocation shall be made in that manner. When the expenses in a grouping are more general in nature, the allocation should be made through the use of a selected base which produces results that are equitable to both the federal government and the grantee. In general, any cost element or related factor associated with the grantee's activities is potentially adaptable for use as an allocation base if, (1) it can readily be expressed in terms of dollars or other quantitative measures (total direct costs, direct salaries and wages, staff hours applied, square feet used, hours of usage, number of documents processed, population served, and the like); and (2) it is common to the benefited functions during the base period.

Except where a special (or restricted in accordance with 34 CFR 76.564 - 76.569) indirect cost rate is required, the separate groupings of indirect costs allocated to each major function shall be aggregated and treated as a common pool for that function. The costs in the common pool shall then be distributed to individual programs included in that function by use of a single indirect cost rate.

The distribution base used in computing the indirect cost rate for each function may be (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, the portion of each subaward in excess of \$25,000, etc.); (2) direct salaries and wages; or (3) another base which results in an equitable distribution. An indirect cost rate should be computed for each separate cost pool.

#### **D. Special and Restricted Indirect Cost Rates**

Special indirect cost rates may be required when a regular indirect cost rate for all activities of a grantee, or for each major function of the agency, may not be appropriate. Regular indirect cost rates may not take into account different factors which substantially affect the indirect costs applicable to a particular program or group of programs. Such factors may include the physical location of the work, the level of administrative support required, the nature of the facilities or other resources employed, the organizational arrangements used, etc. When a particular program is performed in an environment that generates a significantly different level of indirect costs, provisions should be made for a separate indirect cost pool applicable to that program. The separate indirect cost pool should be developed during the course of the regular allocation process. The special indirect cost rate may be used if, (1) the rate differs significantly from the rate which would have been developed under the simplified or multiple allocation base method; and (2) the programs to which the rate will apply are material in amount.

One example is a major activity or function that is performed at a site other than the grantee's main office. An off-site rate, where occupancy costs are removed from the pool, may be more appropriate.

Restricted indirect cost rates must be calculated for ED grant programs that have a statutory requirement prohibiting the use of federal funds to supplant non-federal funds. These programs use a restricted indirect cost rate, computed in accordance with 34 CFR 76.564 – 76.569. The governmental unit should review the list of restricted programs (provided by ED) in order to determine whether a restricted rate is required. When a restricted rate is required, the unrestricted rate is calculated first. Adjustments are made to the unrestricted indirect cost pool, removing certain unallowable expenses from the indirect cost pool and adding those expenses to the direct cost base.

## **E. Restricted Indirect Cost Rates – Questions & Answers**

The following questions and answers provide additional details on the restricted rate calculation:

### *1. What is the background on the restricted indirect cost rate?*

Many of the large educational entitlement programs that provide funds to state and local jurisdictions were created by legislative statute which require that the federal funds be used to "supplement and not supplant" on-going educational services. This means that state and local agencies have tax revenue or other financial resources of their own to finance the education. Without the "supplement not supplant" provision, states could simply reduce its support of educational service to the extent of the newly available federal funding or could substitute federal money for tax revenue already generated to fund schools.

### *2. What are Restricted Rates?*

Restricted rates are established to incorporate the provisions of program legislation that bar supplanting. The restricted indirect cost rate formula is described at 34 CFR 75.564 and 76.565. The formula limits the general management costs that can be included in the indirect cost pool (numerator) and requires adjustments to the MTDC base (denominator).

### *3. What is the practical effect of the restricted indirect cost rate formula?*

The formula results in a marginal distribution of administrative costs required to implement federal assistance. The calculation of the restricted indirect cost rate is viewed as a funneling process. The first step requires the state and local unit of government to segregate the accounting of costs between indirect and direct with full cost reimbursement in mind. The restricted indirect cost rate determination further filters costs that are incurred by the state or local unit of government. Rules at 34 CFR 76.565 allow only costs for the "direction and control" of the grantee to be considered general management costs.

Costs associated with activities under organizational units that are not for department level management also are not considered general management costs. Therefore, in a restricted rate setting, indirect costs are purged to include only "organization-wide" general management costs at the grantee level (e.g., bookkeeping, accounting, payroll, auditing, procurement, and personnel). The general management costs are refined again to exclude costs of the Chief Executive Officers, their immediate officers, component officers and related costs. Related costs include applicable fringe benefits, travel, space costs and other associated costs. These costs are then reclassified from indirect to the MTDC base.

#### *4. Who are the Chief Executive Officers?*

The Chief Executive Officer exercises overall responsibility for the operation and management of the organization. The Chief Executive Officer's immediate office includes any Deputies or similar office, along with the immediate support staff. It is important to emphasize that the Chief Executive Officer of the grantee is not the Governor or member of an elected or appointed Board. Expenses for these positions are already unallowable as general government expenses.

#### *5. What are Component Costs?*

Generally, components are organizational units for both indirect and direct functions existing one level below the Chief Executive Officer unit. Depending on the organization, there may be circumstances where component costs would properly be accounted for in the indirect cost pool. The grantee's organizational structure is considered in determining adjustments for components.

#### *6. What does the term organization-wide mean in the restricted indirect cost rate determination?*

The term organization-wide means those departmental level direction and control function costs that all grantees have in common. The regulations describe accounting, payroll, and personnel management as examples of organizational disciplines. Often cross cutting educational activities (e.g., Curriculum Development, Pupil Data, Library Services, Evaluation Services, and School Services) are mistaken for indirect cost functions. They are not for direction and control of the organization, but rather provide services to schools or students. Those cost centers are program service functions, even if they have system-wide impact.

The restricted indirect costs includes activities related to maintaining operations as a business concern, but not the delivery of services that the state or local government provides as part of its specific mission.

*7. May costs for divisional administration be billed directly to federal programs?*

Generally, such costs are the obligation of the state and local government. An exception would be granted if the program official makes a determination that the costs are specifically required for the award.

*8. Space type costs are accepted in a usual indirect cost environment. How are they accounted for in the restricted indirect cost formula?*

Occupancy and space maintenance costs as described at 34 CFR 76.568 are included in the direct cost base (denominator) for the restricted indirect cost rate determination. However, if the state and local government can identify the portion of space that supports allowable indirect cost personnel, then the costs may be included with allowable general management costs.

*9. May the space costs that are reclassified to the other direct cost base be recovered through direct billings?*

No. These space costs are the financial responsibility of the organization.

*10. When occupancy costs are part of the approved statewide costs, how are they treated for Restricted Rate purposes?*

Occupancy costs are disallowed, except where allowable under 34 CFR 76.568 (b). The disallowed amount is not included in the base, because these costs are not incurred by the grantee.



## **SECTION V**

### **STATE AND LOCAL AGENCIES RESPONSIBILITIES**

#### **A. General**

State and local agencies that are receiving federal funds from ED are required to comply with OMB Circular A-87 and EDGAR in order to be reimbursed for indirect costs. In addition, recipients of direct grant awards must ensure that subrecipients also comply with the appropriate OMB Circulars and federal regulations. Where local governments only receive funds as a subrecipient, the primary recipient will be responsible for negotiating the indirect cost rate or cost allocation plan.

#### **B. State Educational Agency Procedures**

The majority of ED funding provided to LEAs are passed-through from the SEAs. Although LEAs may also receive awards directly from a federal agency, ED delegates authority for LEAs' indirect cost rate determination to the SEA (34 CFR 561 (b)).

SEAs must submit an LEA indirect cost plan to ED. The plan details the methodology LEAs will use to calculate indirect cost rates (see rate preparation procedures in Section II and the model LEA plan in Appendix III). ED must first approve the LEA indirect cost methodology to ensure that the SEA's procedures for indirect cost rate oversight are acceptable. The LEA methodology is submitted by the SEA and reviewed by ED every five years (earlier if changes to the plan are made). Once approved, a Delegation Agreement is signed by ED and an SEA official (see Delegation Agreement example in Appendix IV).

#### **C. Subrecipients**

The flow of responsibilities is from the federal agency making the award, to the primary (direct recipient), and from the primary recipient to the subrecipient. Entities receiving federal funds only as subrecipients will obtain indirect cost rate approval from the primary recipient, before claiming indirect cost reimbursement. The primary recipient is also responsible for monitoring and oversight at the subrecipient level.

Both primary (direct) and subrecipients are subject to the cost principles issued by OMB. However, cost principles are determined based on type of entity. For example, if the direct award is made to a state or local government, all costs incurred by that entity are governed by OMB Circular A-87. On the other hand, if that grantee makes a sub-award to a non-profit agency, costs incurred by the non-profit agency are subject to OMB Circular A-122.





## SECTION VI

### TIME REPORTING REQUIREMENTS

#### A. General Information

OMB Circular A-87 provides the standards on time reporting and labor charges to federal awards. Grantees are responsible for compliance with the standards.

#### B. Time and Attendance Reporting

Time and attendance reporting systems are used to document whether an employee was on the job or absent on leave. No further documentation is required for the salaries and wages of employees who work on a single indirect cost activity. If an employee works on two indirect cost activities that are allocated using different bases, then a personnel activity report is required (see Item D. below).

Time and Attendance reporting systems will be based on payrolls documented in accordance with the generally accepted practice of the governmental unit and approved by a responsible official of the governmental unit.

#### C. Semi-Annual Certifications

If an employee works solely on a single federal award or cost objective, the activity must be supported with a periodic certification. The certification documents the employee worked solely on an activity for the period covered. The certification must be prepared at least semi-annually (every six months), signed and dated by the employee or supervisor having firsthand knowledge of the work performed by the employees.

In some circumstances, the requirement for a semi-annual certification may be achieved through certain payroll coding and time and attendance certifications. For example, if (1) employees work in a dedicated function (i.e., on a single cost objective); (2) their potential assignment to multiple programs/activities is not within the authority, function, or purview of the supervisor responsible for certifying payroll time and attendance; and (3) the employee is coded to one dedicated function; then the payroll certification shall be accepted in lieu of the semi-annual certification of time and effort.

An example of a semi-annual certification is shown in Appendix VIII.

#### **D. Personnel Activity Reports (PARs)**

The PAR supplements the time and attendance reporting system by identifying the amount of time an employee works on multiple cost objectives. An employee is considered to work on multiple cost objectives, if they work on:

- More than one federal award;
- A federal award and a non-federal award;
- An indirect cost activity and a direct cost activity;
- Two or more indirect cost activities which are allocated using different allocation bases; or
- An unallowable activity and a direct or indirect cost activity.

PARs must meet the following standards:

- After-The-Fact Record: must reflect an after the fact distribution of the actual activity of the employee;
- Total Activity: must account for the total activity for which the employee is compensated;
- Monthly: must be prepared at least monthly and must coincide with one or more pay periods; and
- Signed and dated: must be signed and dated by the employee. A signature of the supervisor alone is not sufficient.

Budget estimates determined before the services are performed do not qualify as support for charges to federal awards. However, estimates may be used for interim accounting purposes if certain criteria required by OMB Circular A-87 are met. An example of a PAR is shown in Appendix VIII.

#### **E. Substitute Systems**

A substitute system for allocating salary and wages is allowed with written prior approval. OMB Circular A-87 provides that substitute systems may include random moment sampling, case counts or other formats that accurately measure employee effort.

#### **F. Policies and Procedures**

Written policies and procedures are essential to implementing an effective time reporting system. The state and local unit of government should develop instructions for (1) the completion of PARs; (2) the approval cycle that is required; (3) the processing of completed forms; and (4) the internal review process that will be established to ensure compliance. Generally, the information should be in sufficient detail to permit an understanding of how the system will operate from the point the time is expended, to the point the time is recorded in the accounting records and charged to federal awards.

## SECTION VII

### COMMON INDIRECT COST ISSUES

This section presents examples of some common issues disclosed in ED reviews. The issues are summarized below under the following categories:

- A. Compensation
- B. Unallowable Costs
- C. Credits
- D. Interest
- E. Depreciation/Use Allowance
- F. Subawards
- G. Unsupported Costs

#### *Examples of Common Issues*

##### **A. Compensation**

The following issues and items of cost are addressed in OMB Circular A-87 in the paragraph titled, “Compensation for personal services”.

###### 1. Support for Salaries and Wages

Allowable labor costs, whether charged directly or indirectly to federal awards, must be based on records reflecting the actual activities of employees. PARs must account for the “total activity” for which employees are compensated. In many cases where issues were found, an adequate time reporting system was not in place. Instead a reporting system was used for time and attendance only, and not for time distribution purposes. Salaries and wages constitute the majority of all costs associated with ED awards. OMB Circular A-87 provides specific criteria as to acceptable documentation for salaries and wages, including requirements for periodic time certifications and PARs.

###### 2. Unused Leave Payments

Payments for unused leave are made to employees who retire or terminate employment in the current year. Some grantees incorrectly claimed unused leave payments as an expense to the funding source an employee was working on at the time of retirement. Thus, a federal award could be charged the full amount even though the employee may not have worked on the program during the entire leave accumulation period.

OMB Circular A-87 states, “Payments for unused leave when an employee retires or terminates employment are allowable in the year as a general administrative expense to all activities of the governmental unit or component.” For purposes of calculating the unrestricted rate, all unused leave costs of terminating employees are included in the indirect cost pool. For the restricted rate calculation, unused leave costs associated with unallowable labor costs will be removed from the pool and added to the distribution base.

### 3. Severance Pay

Severance payment (incurred under law, employer/employee agreement or under a written policy) associated with normal turnover is an allowable cost in the year of separation. The payments must be allocated to all activities of the governmental unit as an indirect cost. Some grantees charged severance pay directly instead of indirectly.

The cost of mass severance pay will be decided on a case-by-case basis by the cognizant federal agency. Mass severance costs include retirement incentives, buyouts, lump sum payments, increased pension benefits and all expenses associated with such an event. Grantees must request prior approval in writing. The criteria, to be used in considering whether abnormal severance pay is allowable, are included in the *Implementation Guide for OMB Circular A-87* (see Appendix VII for the website). LEAs must request approval of mass severance costs through the SEA and SEAs will coordinate the approval process with ED.

### 4. Post Retirement Health Benefits (PRHBs)

PRHBs refer to costs of health insurance or health services not included in a pension plan for retirees, their spouses, dependents, and survivors. Traditionally PRHBs have been determined on a “cash basis” or “pay-as-you-go” basis and are treated as a fringe benefit cost of the current period. OMB Circular A-87 limits reimbursement on the “pay-as-you-go” method to the actual payments made during the year or limits reimbursement to an amount calculated using an actuarial cost method recognized by generally accepted accounting principles and only if funded within six months after the end of the year

The Governmental Accounting Standards Board requires each unit of government to identify the full cost of PRHBs on its financial statements and also have a plan for meeting those obligations. Until a unit of government converts to an actuarial based methodology, the “pay-as-you-go” approach is acceptable. For those units of government that convert to an actuarial based calculation, and until OMB states otherwise, the basic requirements associated with the calculation and documentation of actuarial based pension costs will be followed.

## **B. Unallowable Costs**

Concerns related to unallowable activities are generally categorized in the following two areas:

1. All costs associated with unallowable activities were not properly charged to the final cost objectives.
2. Since all such costs were not directly charged to unallowable activities, an appropriate share of indirect costs was not allocated to these activities. As a result, federal awards were allocated a disproportionate share of the organization's indirect costs.

For the purpose of determining an indirect cost rate, grantees must add unallowable costs to the distribution base (denominator), if those costs are supported by indirect activities. The base should result in each award bearing a fair share of the indirect costs in reasonable proportion to benefits received.

## **C. Credits**

Some grantees did not reduce total costs claimed under ED awards by the amount of credits applicable to costs charged either directly or indirectly. These credits were generated through various transactions, including fees for conferences held for the benefit of ED programs, building rental operations, insurance credits or adjustments, data processing and office services performed for others, etc. All receipts, refunds and adjustments applicable to direct costs charged to ED awards must be credited to those awards. Credits applicable to indirect costs must be made to the appropriate indirect cost pools.

## **D. Interest**

Some grantees charged financing costs to federal awards. Costs on borrowed capital are unallowable. Effective October 1, 1980, interest on facilities (including acquisition or remodeling) is allowable if the conditions in OMB Circular A-87 are met. Interest related to equipment is allowable, if the conditions in the Circular are met for costs incurred on or after September 1, 1995.

## **E. Depreciation/Use Allowance**

OMB Circular A-87 allows depreciation costs or use allowance associated with facilities and equipment. A combination of the two methods cannot be used on the same class of assets. In order to be reimbursed for the cost associated with facilities or equipment, the amount must be based on the depreciation included in the Comprehensive Annual Financial Report or other formal document. A governmental unit will normally identify the classes of assets and the expected lives related to those classes of assets. In addition, an inventory of assets by component within the unit of government will usually be developed. Depreciation will then be computed by class of asset, by expected remaining life and by component within the unit of government.

## **F. Subawards**

Subawards generally include subgrants and subcontracts. Major subawards do not incur (or benefit from) indirect costs to the same degree as other activities. The generally accepted definition of a major subaward is one that exceeds \$25,000 in expenditures per year. ED, as well as other federal agencies, adopted this policy for consistency purposes.

ED's policy on subaward treatment applies on a yearly basis. Grantees must exclude the amount of subaward costs exceeding \$25,000 per subaward, per year. As such, the indirect cost rate will be applied only to the first \$25,000 of each subaward, each year.

## **G. Unsupported Costs**

In order to be allowable, all direct costs and indirect costs must be adequately supported by source documentation which clearly shows the purposes and circumstances of the cost incurred. For example, canceled checks, credit card invoices and travel agents' invoices alone are not sufficient to determine whether the costs are chargeable as direct costs or indirect costs, and whether ED awards received the benefit of the cost incurred. In order to determine whether a cost is allowable or allocable, the purpose of the cost incurrence must be established. ED reviews have disclosed that a large number of grantees did not have adequate documentation to support the allowability/allocability of the costs claimed or proposed.

Also, verbal approval from a program official is insufficient documentation for supporting costs under a grant. Prior approvals and changes to awards must be in writing.

## SECTION VIII

### QUESTIONS AND ANSWERS

The following questions to the Indirect Cost Group are frequently asked by state and local governments. Also, indirect cost guides issued by the U.S. Department of Health and Human Services and the U.S. Department of Labor contain questions and answers. The website references for these agencies are listed in Appendix VII of this Guide.

The questions are grouped according to the subject, as follows:

- A. Application of Principles
- B. Federal Cognizance
- C. Allocation of Costs
- D. Subawards
- E. Other Items

#### **A. Application of Principles**

*1. Is OMB Circular A-87 mandatory to determine allowable costs for state and local governments?*

Yes. The Circular states that these principles will be applied by all federal agencies in determining costs incurred by governmental units under federal grants, cost reimbursement type contracts, and cooperative agreements (including subgrants and subcontracts) except those with (1) publicly-financed educational institutions subject to OMB Circular A-21, and (2) programs administered by publicly-owned hospitals and other providers of medical care that are subject to requirements promulgated by the sponsoring federal agencies.

*2. Are public school systems under the same guidelines as state and local governments and subject to OMB Circular A-87?*

The standards for public schools are included in OMB Circular A-87.

*3. Will the indirect costs, determined by applying the indirect cost rate to federal programs, be reimbursed to state and local governments?*

The indirect costs will be recognized as part of the total cost of the federal programs, except where restricted or prohibited by law. The reimbursement of indirect costs is determined by the federal awarding agency.

## **B. Federal Cognizance**

*1. Can another federal agency question the costs included in a central service cost allocation plan submitted to and approved by the cognizant agency?*

Approved central service costs are set in a negotiation agreement, signed by the representatives of the state or local government and the cognizant federal agency. However, in restricted indirect cost rate calculations, occupancy and maintenance costs and other statewide costs unallowable per 34 CFR 76.565-569, are adjusted from the approved central services costs. Other similar adjustments include, but are not limited to:

- Legal costs related to tort cases, tort settlements, and legal proceedings related to the organization's mission, rather than its internal management. For example, legal costs for a school district boundary dispute, or for advice on educational activities, are unallowable. Legal costs related to the organization's personnel system or related procurement activities are allowable.
- State auditor costs related to non-federal activities are unallowable.

*2. Where can states and local governments receive additional information or clarification on the implementation of OMB Circular A-87?*

Federal agencies assigned cognizance for central service cost allocation plans or indirect cost rate proposals can provide guidance. Additionally, guidance is included in the *Implementation Guide for OMB Circular A-87* (see Appendix VII for the website).

*3. Is there is a form called a "Federally negotiated rate agreement"?*

The Indirect Cost Rate Agreement provides indirect cost rates a state or local department/agency may use to claim indirect costs under federal programs. The Agreement covers specific periods and must be re-negotiated as required. The Agreement is issued by the cognizant federal agency. The Agreement is signed by both the recipient organization and the cognizant federal agency.

*4. Who is responsible for the approval of state and local central service cost allocation plans and indirect cost proposals?*

The U.S. Department of Health and Human Services approves state and local government's central service cost allocation plans.

*5. How will a central service plan be used?*

The central service plan is used to distribute allowable central service costs to each of the individual government departments. The costs are allocated and included in the appropriate state agency's indirect cost proposal.



6. *Our public school district receives direct federal grant funds. Who approves the indirect cost rate?*

LEA indirect cost oversight is delegated to the SEAs. Contact the business office at the SEA to obtain information about the approved rate.

### **C. Allocation of Costs**

1. *How can a grantee distinguish between a direct cost and an indirect cost?*

Generally, a direct cost is one that is incurred specifically for one activity. Indirect costs are of a more general nature and are incurred for the benefit of several activities. Once a grantee makes an election and treats a given cost as direct or indirect, that treatment must be applied consistently and may not change during the fiscal year.

2. *Is it permissible to allocate costs (either directly or indirectly) on the basis of revenue or on the basis of funds available under federal grants or contracts?*

No. The allocation of costs by either of these methods is unacceptable. Cost must be allocated on the basis of costs/expenditures incurred.

3. *Do we need to follow the time reporting requirements of OMB Circular A-87 for the salaries and wages of employees that are used for matching requirements on federal awards?*

Salaries and wages of employees used in meeting cost sharing or matching requirements must be supported in the same manner as those claimed as allowable costs on federal awards.

### **D. Subawards**

1. *If a grantee hires an individual to perform speech pathology services to students in the school, is the service considered a subaward?*

No, this is a professional service providing an auxiliary expertise normally provided in-house. The costs would not be treated as a subaward and are not subject to the exclusion of amounts over \$25,000.

2. *If a grantee contracts with a software vendor to provide technical support and enhancement of existing business software, would this be considered a subaward?*

No, if this cost is for organization-wide support, then it is an indirect cost.

*3. Would a school nurse that only provides medication (not an instructor) to students in the classroom be considered a subaward?*

No, this is a professional service providing an auxiliary expertise normally provided in-house. The costs would not be treated as a subaward and are not subject to the “exclusion of amounts over \$25,000”.

## **E. Other Items**

*1. Are the costs of significant software projects allowable as charges to federal awards?*

Federal programs benefitting from such projects should be charged only for amortization of the capitalized costs once the projects are implemented and in use by federal programs. The costs should be amortized over the useful life of the intangible asset.

*2. May estimates be used when calculating provisional or fixed rates?*

Provisional and fixed indirect cost rates should be based on the most currently available actual cost data or estimates supported by appropriate documentation. Supportable estimates may be more appropriate than a prior year’s cost in circumstances where expected changes are not reflected in the actual cost data. Regarding the fixed rate, estimates may be included in the part of a fixed rate calculation reflecting the current proposed rate (not the part of the calculation with the comparison of the previous year’s recovery to the actual rate).

*3. Must a grantee have an approved indirect cost rate to charge indirect costs to programs?*

ED requires grantees charging indirect costs to programs to obtain a federally approved indirect cost rate. LEAs obtain approved indirect cost rates from the SEA via a Delegation Agreement with ED. ED grant officers may approve a temporary indirect cost rate of 10% of direct salaries and wages, for grantees receiving ED awards and who do not have a federally approved rate. However, a grantee must submit an indirect cost rate proposal to its cognizant agency within 90 days of the grant award notice.

*4. May a grantee apply an approved restricted rate to unrestricted programs?*

Grantees have the option to use the restricted rate for indirect cost claims under all federal programs that permit reimbursement. The rate must be current, however, meaning it is approved and covers the period coincident with grant activities.

**APPENDICES**

**MODELS, EXAMPLES and**  
**REFERENCES\***

*\*The models and examples are for guidance purposes only.*



## **APPENDIX I**

# **STATE EDUCATIONAL AGENCY MODEL INDIRECT COST RATE PROPOSAL**



***STATE EDUCATIONAL AGENCY***  
***MODEL INDIRECT COST RATE PROPOSAL\****

***Organization: XYZ State Department of Education***

***Address:***

***Contact Name:***

***Phone Number:***

***Effective Date:***

*\*Note: This is an example only and should be tailored  
to the organization's structure.*

## **Contents\***

Page / Exhibit / Schedule

**Profile**

**Certificate of Indirect Costs (see Appendix VI)**

**Statement of Total Expenditures &  
Indirect Cost Rate Calculation (Restricted & Unrestricted)**

**Schedule of Restricted Rate Adjustments**

**Fixed Rate with Carry-Forward Adjustment**

**Approved State-Wide Cost Allocation Plan  
(not included in model; obtain from DHHS)**

**Glossary of Functions and Objects**

**Organization Chart**

**Cost Policy Statement (see Appendix V)**

*\*Include additional schedules, for unrestricted and restricted rate calculations, and other supporting documentation, as necessary.*



# XYZ State Department of Education

## Profile

1. Which basis of accounting is used?
  - a. Cash \_\_\_\_\_
  - b. Accrual \_\_\_\_\_
2. Number of employees \_\_\_\_\_
3. Describe Rates calculated (Unrestricted / Restricted / Other) \_\_\_\_\_
4. Type of Rate calculated (Fixed or Predetermined) \_\_\_\_\_
5. If Predetermined, is the rate discounted? \_\_\_\_\_ Discount % = \_\_\_\_\_
6. Frequency of indirect cost rates calculated \_\_\_\_\_
7. Are unused leave payments in the indirect cost pool for calculation of the unrestricted indirect cost rate? \_\_\_\_\_
8. Are the salaries and related costs of Superintendents, Deputy Superintendents, and Heads of components, adjusted in the Restricted Rate calculation? \_\_\_\_\_
9. Are unused leave payments charged directly to federal awards? \_\_\_\_\_
10. Are all building related expenditures in the direct cost base for calculation of the restricted indirect cost rate? \_\_\_\_\_
11. Does the base include only the first \$25,000 of subaward expenditures? \_\_\_\_\_
12. If the answer in #11 is “no”, describe the treatment of subawards in the base?  
\_\_\_\_\_
13. Are any types of retirement incentives included in the proposal or planned in the next fiscal year? If yes, describe the expenditures.  
\_\_\_\_\_

XYZ State Department of Education									
Statement of Total Expenditures & Indirect Cost Rate Calculation									
Year Ending June 30, 200X									
	(a)	(b)	(c)	Direct Costs (d)			Indirect Costs (e)		
	Total Costs	Excluded Costs	Unallowable Costs	Salaries & Benefits	Other	Total	Salaries & Benefits	Other	Total
<b>DIRECT ACTIVITIES</b>									
Board of Education	988,200		65,700	765,200	157,300	922,500			
Elementary Education	180,900,000	171,990,000	55,000	7,887,800	967,200	8,855,000			
Secondary Education	201,900,000	180,490,000	1,500,000	14,004,700	5,905,300	19,910,000			
Adult Education	11,614,600	1,400,000	10,500	7,806,000	2,398,100	10,204,100			
Food Services	4,977,900	3,000,000	200,000	983,700	794,200	1,777,900			
Pupil Transportation	1,338,100		20,000	891,900	426,200	1,318,100			
Unallowable Costs			(1,851,200)		1,851,200	1,851,200			
<b>Subtotal Direct Activities</b>	<b>401,718,800</b>	<b>356,880,000</b>	<b>0</b>	<b>32,339,300</b>	<b>12,499,500</b>	<b>44,838,800</b>			
<b>DEPARTMENTAL INDIRECT</b>									
Commissioner of Education	369,900						209,500	160,400	369,900
Legal Counsel	486,000						365,700	120,300	486,000
Comptroller	356,300						246,000	110,300	356,300
Human Resources	523,800						463,500	60,300	523,800
Information Services	487,200						399,700	87,500	487,200
Business Management	784,800						604,200	180,600	784,800
Occupancy	484,600							484,600	484,600
Depreciation (e)	146,800							146,800	146,800
<b>Subtotal Departmental Indirect</b>	<b>3,639,400</b>						<b>2,288,600</b>	<b>1,350,800</b>	<b>3,639,400</b>
Central Services Cost	497,600							497,600	497,600
<b>Total Costs</b>	<b>405,855,800</b>	<b>356,880,000</b>	<b>0</b>	<b>32,339,300</b>	<b>12,499,500</b>	<b>44,838,800</b>	<b>2,288,600</b>	<b>1,848,400</b>	<b>4,137,000</b>
<b>Restricted Rate Adjustments:</b>									
				<b>(Add to Base Costs)</b>			<b>(Deduct from Pool Costs)</b>		
Commissioner of Education				209,500	160,400	369,900	(209,500)	(160,400)	(369,900)
Legal Counsel				150,000	50,000	200,000	(150,000)	(50,000)	(200,000)
Comptroller				100,000	35,000	135,000	(100,000)	(35,000)	(135,000)
Human Resources				90,000	30,000	120,000	(90,000)	(30,000)	(120,000)
Information Services				95,000	30,000	125,000	(95,000)	(30,000)	(125,000)
Business Management				150,000	50,000	200,000	(150,000)	(50,000)	(200,000)
Occupancy					350,000	350,000		(350,000)	(350,000)
Depreciation					45,000	45,000		(45,000)	(45,000)
Central Services Costs			155,000					(155,000)	(155,000)
<b>Adjusted Costs</b>				<b>794,500</b>	<b>750,400</b>	<b>1,544,900</b>	<b>(794,500)</b>	<b>(905,400)</b>	<b>(1,699,900)</b>
<b>Total Restricted Rate Calculations</b>	<b>405,855,800</b>	<b>356,880,000</b>	<b>155,000</b>	<b>33,133,800</b>	<b>13,249,900</b>	<b>46,383,700</b>	<b>1,494,100</b>	<b>943,000</b>	<b>2,437,100</b>
<b>COMPUTATION OF THE UNRESTRICTED RATE**:</b>									
Total Unrestricted Pool	4,137,000								
Unrestricted MTDC Base	44,838,800	9.2%							
* MTDC - Modified Total Direct Cost Base									
<b>COMPUTATION OF THE RESTRICTED RATE**:</b>									
Total Restricted Pool	2,437,100								
Restricted MTDC Base	46,383,700	5.3%							
**Carry-Forward Adjustment, although not shown, may be part of the calculation.									

XYZ State Department of Education			
Schedule of Restricted Rate Adjustments			
<u>Department</u>	<u>Positions</u>	<u>Salary &amp; Benefits</u>	<u>Other Costs*</u>
Commissioner of Education			
	Commissioner		
	Deputy Commissioner		
	Secretary		
	Special Assistant		
	Total		
Legal Counsel			
	General Counsel		
	Secretary		
	Special Assistant		
	Total		
Comptroller			
	Comptroller		
	Secretary		
	Total		
Human Resources			
	Director		
	Secretary		
	Total		
Information Services			
	Director		
	Secretary		
	Total		
Business Management			
	Director		
Occupancy			
	Utilities		
	Rent		
	Total Costs		
	Unallowable Amount*		
Depreciation			
	Building		
	Total Costs		
	Unallowable Amount*		
Central Services Costs			
	Building Use Costs		
* Explain Allocation Method			

**XYZ State Department of Education**

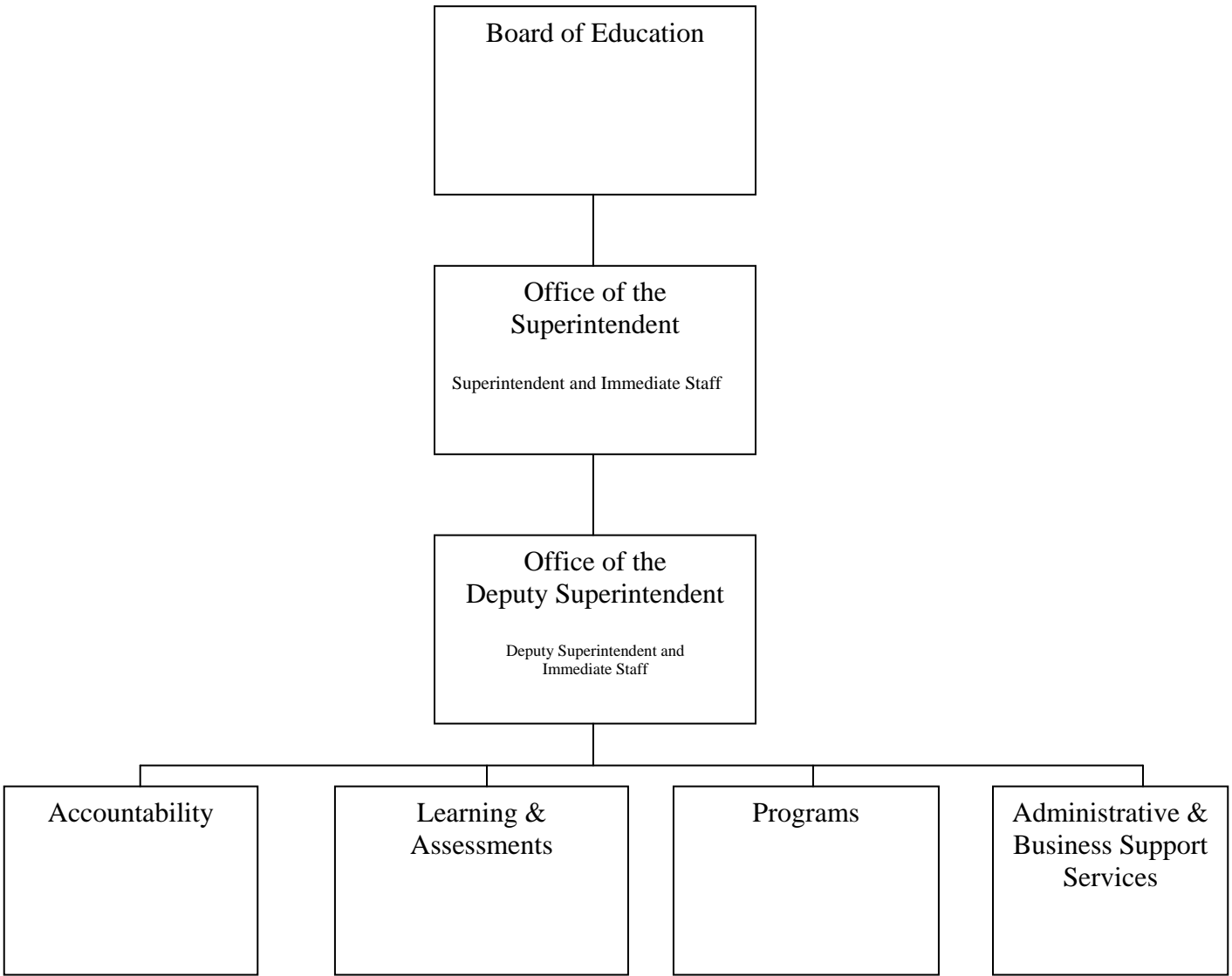
**Fixed Rate with Carry-Forward Adjustment**

		<b>Initial Year FY 2003</b>		<b>FY 2005</b>		<b>FY 2007</b>
(C)	Fixed Rate (A / B)	7.9%		9.7%		9.9%
(B)	Direct Base	44,000,000		50,000,000		59,000,000
	Pool:					
	Departmental	3,200,000		4,280,000		5,775,455
	Central Services	280,000		250,000		
	Carry Forward	0		325,455		46,018
		-----		-----		-----
(A)	Total Pool	3,480,000		4,855,455		5,821,473
	<b>Actual Costs:</b>					
(D)	Direct Base	50,000,000		59,000,000		
	Departmental	4,000,000		5,200,000		
	Central Services	280,000		250,000		
	Carry Forward	0		325,455		
		-----		-----		
(E)	Total Pool	4,280,000		5,775,455		
	<b>Carry Forward Adjustment:</b>					
	Recovered = Fixed Rate (C) X					
	Actual Base (D) = (F)					
(F)	Recovered Indirect Costs	3,954,545		5,729,436		
(E)	Actual Indirect Costs	4,280,000		5,775,455		
		-----		-----		
(G)	(Over)/Under Recovery	325,455		46,018		

## GLOSSARY OF FUNCTIONS AND OBJECTS

Object	Function	Description
100	Instruction	<p>Instruction includes the activities involving the interaction between teachers and students. Teaching may be provided for students in a school classroom, in another location such as a home or hospital, and in other learning situations such as those involving co-curricular activities. It may also be provided through some other approved medium such as television, radio, computer, Internet, multimedia telephone, and correspondence, that is delivered inside or outside the classroom, or in other teacher-student settings.</p> <p>Included here are the activities of aides or classroom assistants of any type (clerks, graders, teaching machines, etc.) who assist in the instructional process.</p>
200	Support Services	<p>Support services provide administrative, technical (such as guidance and health), and logistical support to facilitate and enhance instruction. These services exist as adjuncts for fulfilling the objectives of instruction, community services, and enterprise programs, rather than as entities within themselves.</p>
211	Attendance & Social Work Services	<p>Includes activities designed to improve student attendance at school and which attempt to prevent or solve student problems.</p>
213	Health Services	<p>Includes physical and mental health services that are not direct instructional.</p>
216	Other Support Services-Students-Related	<p>Includes services provided to students as a result of an I.E.P. for services such as speech therapy, occupational therapy and additional counseling.</p>
217	Other Support Services-Students-Extraordinary	<p>Includes services other than related services provided to students as a result of an I.E.P. that are unique to individual students.</p>
218	Other Support Services-Students-Regular	<p>Includes guidance services and any other activities, supplemental to the teaching process, that are designed to assess and improve the well-being of students other than functions 211, 213, 216, 217 and 219.</p>

XYZ STATE DEPARTMENT OF EDUCATION  
ORGANIZATION CHART



**APPENDIX II**

**INDIRECT COST RATE AGREEMENT**





INDIRECT COST RATE AGREEMENT  
STATE EDUCATIONAL AGENCY

ORGANIZATION:

DATE:

XXX State Educational Agency  
4505 East Boulevard  
Ark, TX 87778-0000

AGREEMENT NO.  
FILING REFERENCE:

The purpose of this Agreement is to establish indirect cost rates for use in awarding and managing of Federal contracts, grants, and other assistance arrangements to which Office of Management and Budget (OMB) Circular A-87 applies. This agreement is issued by the U.S. Department of Education pursuant to the authority cited in OMB Circular A-87.

This Agreement consists of four parts: Section I - Rates and Bases; Section II - Particulars; Section III - Special Remarks; and, Section IV -Approvals.

Section I - Rate(s) and Base(s)

<u>Type</u>	<u>Effective Period</u>		<u>Rate</u>	<u>Base</u>	<u>Coverage</u>	
	<u>From</u>	<u>To</u>			<u>Location</u>	<u>Applicability</u>
Fixed	07-01-09	06-30-10	10.0%	<u>1/</u>	All	<u>2/</u>
Fixed	07-01-09	06-30-10	5.0%	<u>1/</u>	All	<u>3/</u>

1/ Total direct costs less items of equipment, alterations and renovations, pass-through funds, and subaward expenditures in excess of \$25,000 per subaward.

2/ All Federal programs which do not require the use of a restricted rate per 34 CFR 76.563.

3/ All Federal programs which require the use of a restricted rate per 34 CFR 76.563.

Treatment of Fringe Benefits

Fringe Benefits applicable to direct salaries and wages are treated as direct costs.

Section II - Particulars

SCOPE: The indirect cost rate(s) contained herein are for use with grants, contracts, and other financial assistance agreements awarded by the Federal Government and subject to OMB Circular A-87.

LIMITATIONS: Application of the rate(s) contained in this Agreement is subject to all statutory or administrative limitations on the use of funds, and payment of costs hereunder is subject to the availability of appropriations applicable to a given grant or contract. Acceptance of the rate(s) agreed to herein is predicated on the conditions: (A) that no costs other than those incurred by the Organization, were included in the indirect cost pools as finally accepted, and that such costs are legal obligations of the Organization and allowable under the governing cost principles; (B) that the same costs that have been treated as indirect costs are not claimed as direct costs; (C) that similar types of information which are provided by the Organization, and which were used as a basis for acceptance of rates agreed to herein, are not subsequently found to be materially incomplete or inaccurate; and (D) that similar types of costs have been accorded consistent accounting treatment.

ACCOUNTING CHANGES: Fixed or predetermined rates contained in this Agreement are based on the accounting system in effect at the time the Agreement was negotiated. When changes to the method of accounting for cost affect the amount of reimbursement resulting from the use of these rates, the changes will require the prior approval of the authorized representative of the cognizant negotiation agency. Such changes include, but are not limited to, changing a particular type of cost from an indirect to a direct charge. Failure to obtain such approval may result in subsequent cost disallowances.

FIXED RATE: The negotiated rate is based on an estimate of the costs which will be incurred during the period to which the rate applies. When the actual costs for such period have been determined, an adjustment will be made in a subsequent negotiation to compensate for the difference between the cost used to establish the fixed rate and the actual costs.

NOTIFICATION TO OTHER FEDERAL AGENCIES: Copies of this document may be provided to other Federal agencies as a means of notifying them of the agreement contained herein.

AUDIT: If a rate in this Agreement contains amounts from a cost allocation plan, future audit adjustments which affect this cost allocation plan will be compensated for during the rate approval process of a subsequent year.

Section III - Special Remarks

1. This Agreement is effective on the date of approval by the Federal Government.
2. Questions regarding this Agreement should be directed to the Negotiator.
3. Approval of the rate(s) contained herein does not establish acceptance of the Organization's total methodology for the computation of indirect cost rates for years other than the year(s) herein cited.

Section IV – Approvals

For the State Educational Agency:

For the Federal Government:

XXX State Educational Agency  
4505 East Boulevard  
Ark, TX 87778-0000

U.S. Department of Education  
OCFO/FIPAO/ICG  
400 Maryland Avenue, SW  
Washington, DC 20202-4450

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Name

\_\_\_\_\_  
Name

\_\_\_\_\_  
Title

Director, Indirect Cost Group  
\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

\_\_\_\_\_  
Negotiator

\_\_\_\_\_  
Telephone Number



## **APPENDIX III**

# **LOCAL EDUCATIONAL AGENCY MODEL INDIRECT COST PLAN**



***LOCAL EDUCATIONAL AGENCY  
MODEL INDIRECT COST PLAN\****

***Organization: XYZ State Department of Education***

***Address:***

***Contact Name:***

***Phone Number:***

***Effective Date:***

*\*Note: This is an example only and should be tailored to the organization's structure.*

## **Contents**

Page / Exhibit / Schedule

**Introduction**

**Indirect Cost Rate Information**

**Approval Process**

**Classification of Costs**

**Rate Types**

**Profile of LEAs**

**Schedule of Expenditures (Restricted & Unrestricted Rates)\***

**Calculation of Indirect Cost Rate (Restricted & Unrestricted)\***

**Fixed Rate with Carry-Forward Adjustment (Restricted & Unrestricted)\***

**Restricted Rate Subsidiary Schedule**

**Glossary of Functions and Objects**

**Organization Chart**

*\* Provide schedules for 3 largest school districts with submission. Include additional schedules/calculations and other supporting documentation, as necessary.*



## **Introduction**

The XYZ Department of Education has, in cooperation with the U.S. Department of Education (ED), developed an indirect cost proposal to be used by local educational agencies (LEA's) in the state. The state educational agency (SEA) has been delegated authority by ED to review and approve indirect cost rates submitted by LEAs. In order to recover indirect costs on federal awards, an LEA must have an approved indirect cost rate. A new indirect cost rate must be obtained for every fiscal year beginning \_\_\_\_\_. The classification of expenditures will conform to the object codes used in the Uniform Chart of Accounts.

## **Indirect Cost Rate Information**

An indirect cost rate is a means of determining, in a reasonable manner, the percentage of allowable general management costs that benefit each federal program or activity. Indirect costs are generally administrative costs such as the salaries and expenses for staff engaged in organization-wide (general) activities.

Indirect costs are recovered only to the extent of direct costs incurred. Once a rate is approved, it is applied to the net direct costs expended (i.e., total direct costs less equipment purchases, alterations and renovations, the portion of individual subawards exceeding \$25,000 and pass-through funds). The approved rate is the maximum rate that can be applied, although less than the maximum rate may be used.

Federal law or grant conditions may limit the amount of indirect costs or the indirect cost rate. For example, if a district has a restricted rate of five percent and the program legislation allows only a three percent rate of recovery, then it can recover only indirect costs equal to three percent of the appropriate base. Grant terms and conditions may also exist for some grants that prohibit any recovery of indirect costs. Recovery of indirect costs on grants is subject to the availability of funds.

## **Approval Process**

An indirect cost rate approval is issued by the SEA for a specific fiscal year. The rate is valid from \_\_\_\_\_ to \_\_\_\_\_ of the applicable fiscal year. Indirect costs are recovered only to the extent of direct costs incurred. The indirect cost rate is applied to the direct cost amount expended, not to the grant award.

The sources of information utilized to determine indirect cost rates are the LEA's audited Comprehensive Annual Financial Report (CAFR) and the detail accounts. Therefore, it is essential that LEAs classify expenditures uniformly and consistently. Types of expenditures, which are identified as indirect costs, shall not also be included as direct costs. All expenditures detailed on the CAFR must have been incurred and records supporting the costs must be maintained by the LEA. An approved indirect cost rate is obtained by following the instructions provided to LEAs. Those instructions are contained in this Plan.

## Classification of Costs

### Direct Costs

Direct costs are those that can be identified specifically with a particular cost objective. These costs may be charged directly to grants, contracts, or to other programs against which costs are finally assigned. Typical direct costs chargeable to a grant include, but are not limited to:

- (a) Compensation of employees for the time devoted and identified specifically to the performance of those programs;
- (b) Cost of materials acquired, consumed, or expended specifically for the purpose of those programs;
- (c) Travel expenses incurred specifically to carry out the program; etc.

### Indirect Costs

Indirect costs are those not readily identifiable with the activities of the grant but incurred for the joint benefit of those activities and other activities of the organization. In accordance with OMB Circular A-87, indirect costs are:

- Incurred for a common or joint purpose benefiting more than one cost objective; and
- Not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved.

A cost may not be allocated to a federal program as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a federal program as a direct cost. Typical examples of indirect costs may include: procurement, payroll, personnel functions, maintenance and operations of space, data processing, accounting, auditing, budgeting, communications (telephone, postage), etc.

### Unallowable Costs

OMB Circular A-87 classifies certain items of cost as unallowable. Unallowable costs cannot be charged to federal awards. For rate computation purposes, unallowable costs should be included in the allocation base if such costs benefit from allowable indirect activities. Examples of unallowable are bad debts; contingencies; entertainment; fines/penalties; general governance; and contributions/donations to outside organizations.

### Excluded Costs

Certain items of costs are classified as extraordinary or distorting expenditures and are excluded from the computation of the indirect cost rate. Excluded costs include capital outlay, debt service, judgments against the school district, certain transfers, and internal service fund expenditures. Indirect cost recoveries are also categorized as excluded costs.

## Rate Types

### Restricted Rates

As defined in the Education Department General and Administrative Regulations (EDGAR) at 34 CFR 75.563 and 76.563, restricted rates apply to grants that are made under federal programs with supplement-not-supplant requirements. This means that the funds are for support in addition to state and local funding. Such amounts are intended to supplement, but in no way replace local funds. Most of the federal grants that the LEA obtains through the department are of have supplement-not-supplant requirements and a restricted indirect cost rate must be used on the programs. The restricted indirect cost rate pool (numerator) includes only expenditures of **general management costs** and **fixed charges** as defined below:

**General Management Costs:** Consist of the salaries and expenses for employees performing accounting, payroll preparation, or personnel management activities. Those activities that are limited to one school, subject, or phase of operation, are not general management costs such as the salaries and expenditures related to the direction and supervision of such functions as instruction, guidance, attendance, transportation, community services, and student services. The costs of these functions are considered direct costs.

Generally, salaries and expenses for auditing, budgeting, payroll, personnel, purchasing, and employee relations are examples of services which typically benefit several activities and programs for which costs may be attributed by means of an indirect cost proposal. For LEA's this would include most of the costs recorded in Business and Other Support Services (function 290). In theory, all such costs can be charged directly. However, practical limitation and consideration of efficiency in accounting preclude such an approach and therefore these costs are considered indirect.

As stated in EDGAR 76.565, "general management costs mean the costs of activities that are for the direction and control of the grantee's affairs that are organization-wide. An activity is not organization-wide if it is limited to one activity, one component of the grantee, one subject, one phase of operations, or other single responsibility. General management costs include the costs of performing a service function, such as accounting, payroll preparation, or personnel management, that is normally at the grantee's level even if the function is physically located elsewhere for convenience or better management."

When calculating a restricted indirect cost rate, the term "General Management Costs" does not include expenditures for:

1. The governing body (members of the board of education) of the grantee;
2. Compensation of the chief executive officer (Superintendent of a school district) of the grantee and heads of component offices; and
3. The operation of the immediate offices of these officers.

The superintendent's and board of education's salary, benefits, communications/telephone charges and other expenditures related directly to the operation of the Superintendent's and board of education offices, specifically, are not included in indirect costs and are considered, for rate computation purposes, to be disallowed costs in the calculation of the restricted indirect cost rate.

Charges for individuals whose time is divided between district-wide management responsibilities and specific program or administrative activities will be based on Personal Activity Reports prepared at least monthly in compliance with OMB Circular A-87, Attachment B, Paragraph (11)(h)(5). If the Superintendent is part-time, both Superintendent-time and non-Superintendent-time must be captured by time distribution records.

An individual principal's salary, benefits and expenditures related to the operation of the principal's immediate offices are also not considered indirect costs. These costs are unallowable and are considered to be direct costs for the restricted rate computation purposes.

**Fixed charges:** Fixed charges classified as indirect costs are limited to those amounts which are associated with general management costs. The fixed charges can be viewed as appended to those administrative functions, and the classification rules are the same as those applied to salaries.

These expenditures are exclusively identified as:

- a. Employee retirement
- b. Social Security
- c. Pension fund payments
- d. Premium expenditures for:
  - (1) employee insurance
  - (2) liability insurance
- e. Unemployment and workers compensation, and
- f. All similar costs normally considered being employee fringe benefits.

Note that per OMB Circular A-87, Attachment B (11)(d)(3), payments to separating employees for termination benefits and/or unused leave ("terminal leave costs") are treated as indirect costs when computing the Restricted and Unrestricted indirect cost rate with one exception. When computing the Restricted indirect cost rate, unused leave costs to employees who are indirect for the Unrestricted Rate, but direct for the Restricted Rate (i.e. superintendent and their office), are considered direct cost payments for rate calculation purposes only. Payments to separating employees for unused leave are NOT charged as direct costs to any federal awards. All Post Retirement Health Benefits ("PRHB") will be treated as indirect costs for both the Restricted and Unrestricted rate regardless of where the employees' salary is recorded with one exception. For purposes of calculating the restricted rate, PRHB costs associated with Superintendent, Chief Executive Officer (CEO) of components (as defined by EDGAR 76.565(d)(2)) and their immediate offices will be treated as direct.

## **Unrestricted Rates**

Unrestricted rates apply to grants not subject to the supplement but not supplant legislative restriction.

1. **Indirect Costs** - Expenditure for the Office of the Superintendent in addition to operations and maintenance of plant are classified as an indirect cost when calculating an unrestricted rate. All other costs are classified the same as the restricted rate calculations.
2. **Direct Costs, Unallowable Costs, and Excluded Costs** are also classified the same as the restricted rate calculations.

**Profile of LEAs  
in  
XYZ State Department of Education**

1. Which basis of accounting is used by the LEAs?
  - a. Cash \_\_\_\_\_
  - b. Accrual \_\_\_\_\_
2. Number of LEAs in the State \_\_\_\_\_
3. Number of LEAs requesting indirect cost rates \_\_\_\_\_
4. Describe Rates calculated (Unrestricted / Restricted / Other) \_\_\_\_\_
5. Type of Rate calculated (Fixed or Predetermined) \_\_\_\_\_
6. If Predetermined, is the rate discounted? \_\_\_\_\_ Discount % = \_\_\_\_\_
7. Frequency of indirect cost rates calculated \_\_\_\_\_
8. Are unused leave payments in the indirect cost pool for calculation of the unrestricted indirect cost rate? \_\_\_\_\_
9. Are the salaries and related costs of Superintendents, Deputy Superintendents, and Heads of components, adjusted in the Restricted Rate calculation? \_\_\_\_\_
10. Are unused leave payments charged directly to federal awards? \_\_\_\_\_
11. Are all building related expenditures in the direct cost base for calculation of the restricted indirect cost rate? \_\_\_\_\_
12. Does the base include only the first \$25,000 of subaward expenditures? \_\_\_\_\_
13. If the answer in #12 is “no”, describe the treatment of subawards in the base?  
\_\_\_\_\_
14. Are any types of retirement incentives included in the proposal or planned in the next fiscal year? If yes, describe the expenditures.  
\_\_\_\_\_

**XYZ Local Educational Agency**

Schedule of Expenditures  
- Restricted Rate -  
Year Ended June 30, 20 \_\_

	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
	Total Expenditures	Unallowable Costs	Excluded Costs	Indirect Costs	Direct Costs
<b>GENERAL FUND</b>					
<b>Current:</b>					
<b><u>FUNCTION</u></b>					
1000 Instruction					
2100 Support Services- Students					
2212 Instruction-Curriculum Development					
2213 Instructional Staff Training					
2220 Educational Media Services					
2310 Board of Education Services					
2321 Office of Superintendent Services <sup>1</sup>					
2410 Office of Principal Services					
2510 Fiscal Services					
2600 Operation and Maintenance of Plant					
2690 Other Operation & Maintenance of Plant (Occupation & Space Maintenance Costs)					
2700 Student Transportation Service					
2800 Support Services - Central					
3300 Community Services Operations					
<b>Capital Outlay:</b>					
<b><u>FUNCTION</u></b>					
4000 Facilities Acq. and Construction					
<b><u>OBJECT</u></b>					
700 Property					
<b>Debt Service:</b>					
<b><u>FUNCTION</u></b>					
5100 Debt Service					
<b>TOTAL EXPENDITURES</b>					
<b>SPECIAL REVENUE FUNDS</b>					
Food Services:					
<b><u>FUNCTION</u></b>					
3100 Food Services Operations					
<b>OTHER:</b>					
<b><u>FUNCTION</u></b>					
All Functions Not Listed Above					
<b>TOTAL EXPENDITURES</b>					
<b>GRAND TOTAL</b>					

**XYZ Local Educational Agency**

Calculation of Indirect Cost Rate  
- Restricted Rate -  
Year Ended June 30, 20 \_\_

**Restricted Indirect Cost Rate  
Calculation**

Indirect Pool \$ \_\_\_\_\_

Adjustments:

- Excluded Costs (Functions xxx, xxx, xxx) \_\_\_\_\_

- Unallowable Costs (Functions xxx, Object xxx) \_\_\_\_\_

- Restricted Rate Adjustments (see Schedule xx) \_\_\_\_\_

+/- Carry-Forward Adjustment (or Other Adjustment) \_\_\_\_\_

Total Allowable Indirect Cost Pool \$ \_\_\_\_\_

Base Costs \$ \_\_\_\_\_

Adjustments:

- Excluded Costs (Functions xxx, xxx, xxx) \_\_\_\_\_

+ Unallowable Costs (Functions xxx, Object xxx) \_\_\_\_\_

+ Restricted Rate Adjustments (see Schedule xx) \_\_\_\_\_

+/- Other Adjustment (explain) \_\_\_\_\_

Total Allowable Base Costs \$ \_\_\_\_\_

Indirect Cost Rate Calculation

Total Allowable Pool Costs \$ \_\_\_\_\_

Total Allowable Base Costs \$ \_\_\_\_\_

Calculated Restricted Rate \_\_\_\_\_%



**XYZ Local Educational Agency**

Fixed Rate with Carry-Forward Adjustment  
 - Restricted Rate -  
 Year Ended June 30, 20\_\_

		<u>FY 2006</u>	<u>FY 2008</u>	<u>FY 2010</u>
(C)	Fixed Rate (A / B)	5.1%	5.8%	4.6%
(B)	Direct Base	40,000,000	43,000,000	45,000,000
	Pool:			
	Departmental	2,000,000	2,350,000	2,346,250
	Carry Forward	50,000	146,250	(266,105)
		-----	-----	-----
(A)	Total Pool	2,050,000	2,496,250	2,080,145
	<b>Actual Costs:</b>			
(D)	Direct Base	43,000,000	45,000,000	
	Departmental	2,300,000	2,200,000	
	Carry Forward	50,000	146,250	
		-----	-----	
(E)	Total Pool	2,350,000	2,346,250	
	<b>Carry Forward Adjustment:</b>			
	Recovered = Fixed Rate (C) X Actual Base (D) = (F)			
(F)	Recovered Indirect Costs	2,203,750	2,612,355	
(E)	Actual Indirect Costs	2,350,000	2,346,250	
		-----	-----	
(G)	(Over)/Under Recovery	146,250	(266,105)	

**XYZ Local Educational Agency**

Restricted Rate Subsidiary Schedule

- Restricted Rate -

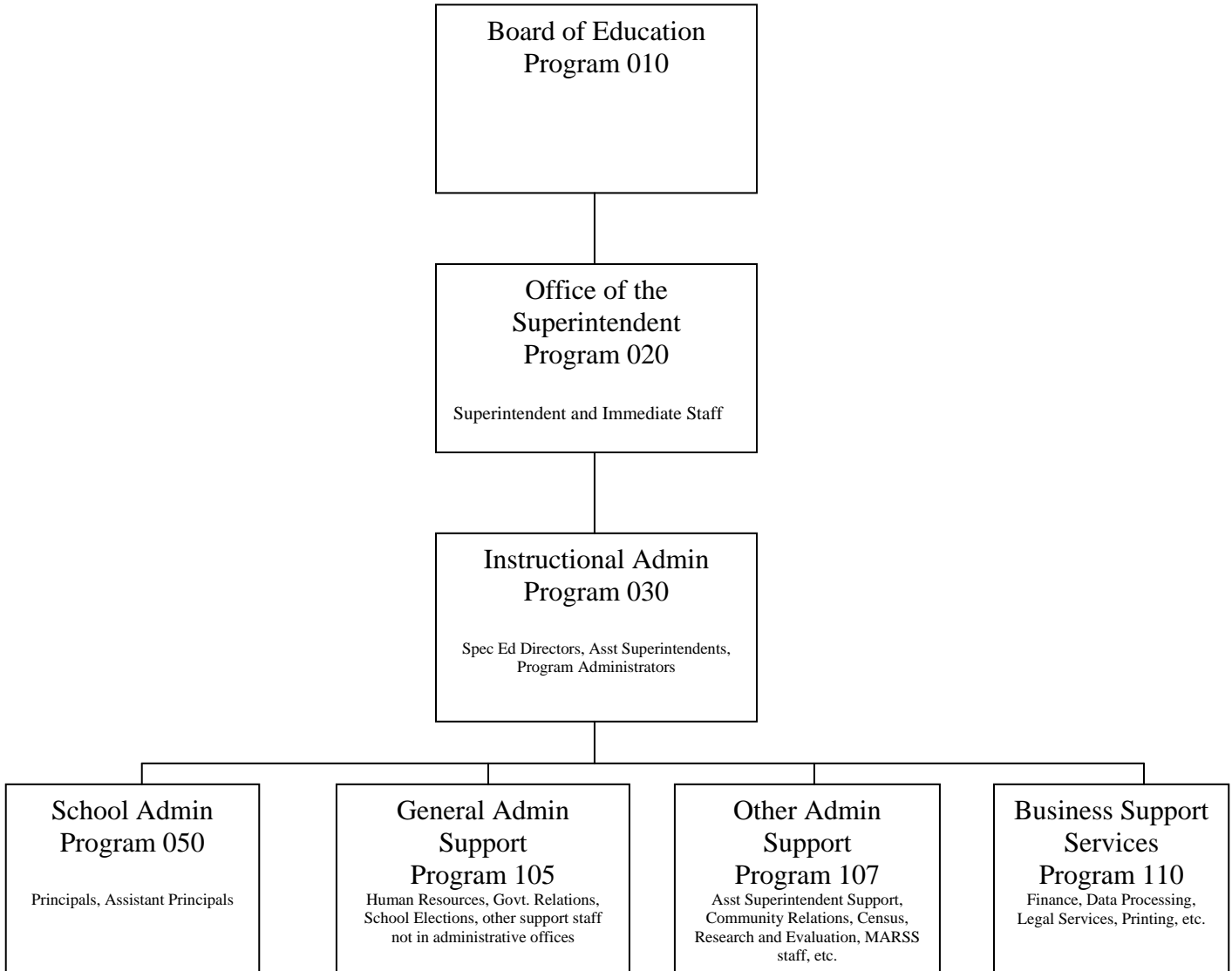
Year Ended June 30, 20 \_\_

CALCULATION of ADJUSTMENTS TO RESTRICTED INDIRECT COST RATE			
RESTRICTED RATE:			
Departmental Costs:	UNRESTRICTED	ADJUSTMENTS	RESTRICTED
Chief Executive Officer & Deputy			
Legal Services			
Fiscal Services			
Personnel Services			
Public Relations			
Policy & Budget			
Data Processing			
Procurement			
Occupancy			
Equipment Use			
Total, Departmental Costs			
Statewide Costs (SWCAP)			
<b>Total, Indirect Costs</b>			
<b>(1) RESTRICTED BASE ADJUSTMENTS:</b>			
Chief Executive Officer and Deputy			
Legal Services			
Fiscal Services			
Personnel Services			
Occupancy			
Total, Base Adjustments			

## GLOSSARY OF FUNCTIONS AND OBJECTS

Object	Function	Description
100	Instruction	Instruction includes the activities involving the interaction between teachers and students. Teaching may be provided for students in a school classroom, in another location such as a home or hospital, and in other learning situations such as those involving co-curricular activities. It may also be provided through some other approved medium such as television, radio, computer, Internet, multimedia telephone, and correspondence, that is delivered inside or outside the classroom, or in other teacher-student settings.
200	Support Services	Support services provide administrative, technical (such as guidance and health), and logistical support to facilitate and enhance instruction. These services exist as adjuncts for fulfilling the objectives of instruction, community services, and enterprise programs, rather than as entities within themselves.
211	Attendance & Social Work Services	Includes activities designed to improve student attendance at school and which attempt to prevent or solve student problems.
213	Health Services	Includes physical and mental health services that are not direct instructional.
216	Other Support Services-Students-Related	Includes services provided to students as a result of an I.E.P. for services such as speech therapy, occupational therapy and additional counseling.
217	Other Support Services-Students-Extraordinary	Includes services other than related services provided to students as a result of an I.E.P. that are unique to individual students.
218	Other Support Services-Students-Regular	Includes guidance services and any other activities, supplemental to the teaching process, that are designed to assess and improve the well-being of students other than functions 211, 213, 216, 217 and 219.

# LOCAL EDUCATIONAL AGENCY ORGANIZATION CHART



## **APPENDIX IV**

# **LOCAL EDUCATIONAL AGENCY DELEGATION AGREEMENT**



LOCAL EDUCATIONAL AGENCY  
DELEGATION AGREEMENT

ORGANIZATION:

XXX State Educational Agency  
4505 East Boulevard  
Ark, TX 87778-0000

DATE:

AGREEMENT NO.

FILING REFERENCE:

This Agreement confirms approval and acceptance of the methodology policy and procedures the State Educational Agency (SEA) will use in establishing indirect cost rates for their Local Educational Agencies (LEAs). These rates are for use in the award and management of Federal contracts, grants and other assistance arrangements governed by Office of Management and Budget (OMB) Circular A-87 and Education Department General Administrative Regulations (EDGAR) 34 CFR parts 75.561 and 76.561 (b) and (c).

The State Superintendent of Education or designated representative is delegated authority to establish indirect cost rates for LEAs in their State. These LEA rates will serve as the sole basis for budgeting and allocating indirect cost reimbursement under Federal programs. The application of LEA indirect cost rates is binding on all Federal agencies and subject to periodic review pursuant to single audit requirements for State and Local governments.

The effective period of this agreement is: July 1, 2009 - June 30, 2014

For the State Educational Agency:

For the Federal Government:

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Name

\_\_\_\_\_  
Name

\_\_\_\_\_  
Title

Director, Indirect Cost Group  
\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

\_\_\_\_\_  
Negotiator

\_\_\_\_\_  
Telephone Number





**APPENDIX V**

**MODEL COST POLICY STATEMENT**



## MODEL COST POLICY STATEMENT

*Use the following model "Cost Policy Statement" as guidance for state and local government agencies seeking reimbursement for indirect costs under federal awards. The model should be tailored to each organization's specific structure.*

---

---

### COST POLICY STATEMENT XYZ STATE EDUCATIONAL AGENCY

#### I. General Accounting Policies.

**(If policies are different in any of the following categories, please specify.)**

- A. Basis of Accounting – Accrual basis
- B. Fiscal Period – July 1 through June 30
- C. Allocation Basis – Simplified Allocation Method
- D. Indirect Cost Allocation Base – Total direct costs less equipment, alterations and renovations, flow-through funds, and the portion of each subaward in excess of \$25,000.
- E. *(If recipient uses a fringe benefit rate, describe fringe benefit allocation base here.)*
- F. XYZ maintains adequate internal controls to insure that no costs are charged both directly and indirectly to federal awards.
- G. XYZ accumulates all indirect costs and revenues in accounts titled "Indirect Cost Expense" and "Indirect Cost Revenue", respectively.

#### II. Description of Cost Allocation Methodology

- A. Salaries and Wages
  - 1. Direct Costs. The majority of XYZ's employees direct charge their salary costs since their work is specifically identifiable to specific federal awards; nonfederal awards; direct activities such as instruction, student services, and food services; and unallowable activities such as lobbying.

## 2. Indirect Costs – Unrestricted Rate

Employees in the following offices are charged as 100% indirect: *(Please identify by object class/code)*

- Chief Executive Officer
- Deputy Chief Executive Officers *(Please specify)*
- Accounting
- Procurement
- Data Processing
- Human Resources
- Payroll Processing

## 3. Indirect Costs – Restricted Rate

The following employee costs, related fringe benefit and related operating costs (e.g., travel, supplies, and occupancy), included as indirect for the Unrestricted Rate, are removed from the indirect cost pool and included in the base when computing the Restricted Rate:

- Chief Executive Officer and immediate staff (secretary; admin/executive/confidential assistants; support staff)
- Deputy Chief Executive Officers and immediate staff
- The chief executive officers (and immediate staffs) of all "Unrestricted" indirect organizational units reporting to the Chief Executive Officer and/or Deputy Chief Executive Officer (Heads of components)

## 4. Mixed Charges and Split-Funded Employees

The following employees may be charged to both direct and indirect activities:  
*(Provide a List of Employees)*

When an individual employee works on more than one grant program, or is funded partially out of direct costs and partially out of indirect costs, the employees maintain time distribution records. XYZ charges employee compensation based on these records. The time distribution records coincide with the pay periods, and are signed by the employee and the employee's supervisor.

Release time costs (vacation leave earned, sick leave used, and paid holidays) (specify which ones) are considered part of salary costs (if they are treated as fringe benefits, please so state). Since such costs are part of salary, the recipient does not claim release time costs as separate charges. XYZ's accounting system records release time as a direct or indirect cost in the same manner that salary costs are recorded. Vacation leave earned but not used during each fiscal year is treated as a cost incurred during the period the leave is earned.

## B. Fringe Benefits

XYZ contributes the following fringe benefits for its employees:

- Federal Insurance Contributions Act (Social Security).
- Employee state pension.
- Unemployment insurance.
- Health insurance.
- Dental insurance.
- Other (*PLEASE SPECIFY*).

Since XYZ's accounting system tracks fringe benefit costs by individual employee and charges those costs directly or indirectly in the same manner as salary and wage costs are recorded, recipient does not need to have a fringe benefit rate established. (*If not, please describe how fringe benefit costs are accumulated in the pool for the fringe benefit rate.*)

In accordance with Office of Management and Budget Circular A-87, Attachment B (11)(d)(3), payments to separating employees for unused leave are treated as indirect costs when computing the Unrestricted indirect cost rate. The Restricted indirect cost rate calculation includes such payments to employees considered unallowable in the calculation as direct (base) costs. Payments to separating employees for unused leave are not charged as direct costs to any federal awards.

## C. Travel

Travel costs are charged either as direct or indirect depending upon the predominant purpose of the trip. Auditable travel vouchers support all claimed travel costs. Travel costs are normally limited to those allowable under the Federal Travel Regulations. XYZ identifies unallowable travel costs (e.g., most first class airfare, excessive lodging costs, and alcoholic beverages) and does not charge them as direct to federal awards or as indirect to any indirect cost pool.

## D. Board of Education Expenses

All salaries, expenses, fees, and other remuneration costs for the State Board of Education are treated as direct (base) costs when computing the indirect cost rates (both restricted and unrestricted). None of these expenses are charged as direct costs to federal awards.

## E. Supplies and Materials

Office supplies and materials are charged as direct costs to the individual awards that use the supplies and/or materials. Supplies and materials used by staff engaged in allowable indirect activities are treated as indirect costs.

#### F. Statewide Costs

Costs included in the approved statewide cost allocation plan (SWCAP) are included as indirect costs when calculating the Unrestricted Rate. Most SWCAP costs are treated as indirect when computing the Restricted Rate. However, as stated in (G) below, occupancy costs on the approved SWCAP are excluded from the calculation when computing the Restricted Rate.

#### G. Occupancy

Occupancy costs include office and/or facility space rental, depreciation or building use allowance, utilities, custodial services, buildings and grounds services, security services, and other costs related to occupancy of the space used by the recipient.

*There are several methodologies for charging occupancy costs. Recipient needs to specifically establish and identify the one used. Any methodology used should provide an equitable distribution.*

- *One methodology is to place all occupancy costs in the "Unrestricted" indirect cost pool. If so, no occupancy costs are charged as direct on any federal awards. When converting from an unrestricted to a restricted setting, the only allowable indirect occupancy costs for the Restricted Rate are those allocable to employees treated as indirect when computing the Restricted Rate. These costs must be supported by a space usage study or equivalent documentation per EDGAR 76.568 (b). The remaining occupancy costs are treated as Direct for Restricted Rate computation purposes. In a Restricted Rate setting, none of the "disallowed" occupancy costs are charged as direct to federal awards.*
- *Another methodology charges occupancy costs to direct and indirect activities based on a distribution such as square footage occupied by the employees. The areas occupied by direct employees are charged as direct costs to the employees' respective activities, and are treated as base costs when computing the indirect cost rate. The areas occupied by allowable indirect employees are part of the indirect cost pool. The exception would be "Restricted Rate" awards in which direct occupancy costs are not allowed as direct charges to Federal programs unless the recipient needs the additional space to conduct the project.*
- *For the purpose of calculating the Restricted Rate, SWCAP occupancy is taken out of the pool but not added to the base.*

#### H. Communications

OMB Circular A-87 requires expenses that can be identified to a specific Federal award to be charged directly. Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives. *(Please specify treatment of fax, telephone, and other related costs).*

Photocopying and Printing - *Please specify treatment of fax, telephone, and other related costs. In situations where allowable indirect employees cannot be identified to a specific activity and the copied material refers to recipient's overall activities, the copies' costs are charged to an indirect expense account. Any direct cost of a minor amount may be treated as an indirect cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all cost objectives.*

I. Outside Services

Outside Professional Services costs are charged as follows:

- Annual audit and OMB Circular A-133 compliance costs are charged as indirect.
- Legal fees for specific activities are assigned to the benefiting activities.
- Legal fees pertaining to the management of the recipient (e.g., advice on personnel relations issues) are treated as indirect costs.
- Professional (including consulting) services costs are charged to the benefiting activities.

J. Capital Expenditures/Equipment

XYZ identifies equipment as items with a purchase price at or exceeding \$1,000 per item. Non-capital expenditures become classified as supplies if the cost is less than \$1,000.

If an indirect cost rate has a modified total direct costs (MTDC) base, the indirect cost rate is applied to individual items with an acquisition cost under \$1,000. When using an MTDC base, capital expenditures are excluded from the base for both rate computation and rate application purposes.

- With the prior approval of the awarding agency, the initial acquisition cost of capital equipment items may be charged directly. Federal awards may not be charged depreciation for equipment paid for with direct Federal funds.
- Capital items that are not charged directly to a Federal award may be recovered through depreciation on buildings, capital equipment and capital improvements. The cost of such capital items used by allowable indirect activities is recovered through depreciation.

K. Unallowable Costs.

XYZ recognizes that the following costs are unallowable as indirect and direct charges to federal awards. XYZ has internal controls in place to identify these costs and charge them to "unallowable cost" accounts.

- Fund Raising
- Alcoholic Beverages
- General Government Activities
- Advertising, except for staff recruitment or property disposal

- Claims and Judgments (except workers compensation)
- Bad Debts
- Fines, Penalties, and Contributions

XYZ includes all above unallowable costs that benefit from its indirect cost pool in the base (denominator) when computing its indirect cost rates.

---

(Signature)

---

(Date)

---

(Title)

(Name and Address of Recipient)



**APPENDIX VI**  
**CERTIFICATE OF INDIRECT COSTS**



## CERTIFICATE OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal dated \_\_\_\_\_ to establish billing or final indirect costs rates for the period ending or ended \_\_\_\_\_ are allowable in accordance with the requirements of the Federal award(s) to which they apply and OMB Circular A 87, *Cost Principles for State, Local, and Indian Tribal Governments*. Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government will be notified of any accounting changes that would affect the predetermined rate.

I declare that the foregoing is true and correct.

Governmental Unit: \_\_\_\_\_

Signature: \_\_\_\_\_

Name of Official: \_\_\_\_\_

Title: \_\_\_\_\_

Date of Execution: \_\_\_\_\_



**APPENDIX VII**

**WEBSITE REFERENCES**



## WEBSITE REFERENCES

The following websites contain additional indirect cost guidance and materials:

<http://www.ed.gov> - Includes information on ED programs and offices, grant information, statistical information, publications and other similar data.

<http://www.cfda.gov> - The Catalog of Federal Domestic Assistance (CFDA) is located at this website. The CFDA is a government-wide list of federal programs, projects, services and activities. The list identifies the programs administered by ED.

<http://www.ed.gov/policy/fund/reg/edgar/Reg/edgar.html> - The Education Department General Administrative Regulations (EDGAR) and is located at this website.

<http://www.whitehouse.gov/omb/circulars> - The federal cost principles and other standards for various other types of organizations are located at this website.

<http://www.ed.gov/about/offices/list/ocfo/fipao/faq.html> - The website includes indirect cost guidance provided by ED.

<http://www.dol.gov/oasam/programs/boc/ocd-guide-main.htm> - The website includes cost allocation guidance provided by the U.S. Department of Labor.

<http://rates.psc.gov/> - The website includes cost allocation guidance provided by the U.S. Department of Health and Human Services. The *Implementation Guide for OMB Circular A-87* is located at this website.

<http://www.aqd.nbc.gov/indirect/indirect.asp> - The website includes guidance provided by the U.S. Department of Interior.





**APPENDIX VIII**

**SEMI-ANNUAL CERTIFICATION FORM**

**and**

**PERSONNEL ACTIVITY REPORT**



**Semi-Annual Certification**

(Staff Working Solely on one Cost Objective)

This is to certify that Jean Smith has worked 100% of his/her time for the period March 1, 2009 through August 31, 2009 on program number DOE 555.

\_\_\_\_\_  
Signature of Employee

\_\_\_\_\_  
Printed Name of Employee

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature of Supervisor

\_\_\_\_\_  
Printed Name of Supervisor

\_\_\_\_\_  
Date

# Personnel Activity Report

Name \_\_\_\_\_

Department \_\_\_\_\_

Account No.	100	200	300	500	600	700	Totals
Account Title	Indirect	ECIA (Federal)	State (be Specific)	Annual Leave	Sick Leave	Holiday Leave	
Mon.	0	0	0	0	0	8	8
Tues.	0	7	1	0	0	0	8
Wed.	0	8	0	0	0	0	8
Thurs.	0	6	2	0	0	0	8
Fri.	0	2	2	4	0	0	8
Mon.	2	5	1	0	0	0	8
Tues.	1	6	1	0	0	0	8
Wed.	0	3	5	0	0	0	8
Thurs.	0	6	0	0	0	0	8
Fri.	1	6	1	0	0	0	8
<b>Totals</b>	<b>4</b>	<b>49</b>	<b>13</b>	<b>4</b>	<b>0</b>	<b>8</b>	<b>80</b>

I certify that this report represents a true recording of effort expended for the period indicated and that I have full knowledge of those activities.

\_\_\_\_\_  
Signature of Employee / Date

\_\_\_\_\_  
Responsible Official / Date

Salary Charging:

Totals	4	49	13	4	0	8	80
Percent of Total*	5.00%	61.25%	16.25%	5.00%	0.00%	10.00%	100.00%
Bi-Weekly Salary	1,700.00	1,700.00	1,700.00	1,700.00	1,700.00	1,700.00	
<b>Amount Charged</b>	<b>85.00</b>	<b>1,041.25</b>	<b>276.25</b>	<b>85.00</b>	<b>0.00</b>	<b>170.00</b>	<b>1,700.00</b>

\* Total Hours for Activity divided by Total Paid Hours for Account No. 100, 4 Hours worked divided by 80 hours = 5.00% charged.

**APPENDIX IX**

**DOCUMENTATION CHECKLIST**



## **State & Local Governments**

### **Indirect Cost Rate Proposal Documentation Checklist**

- \_\_\_\_ 1. Indirect cost rate calculation detailing total direct and indirect expenses by function and cost category, subsidiary worksheets and carry-forward calculations.
- \_\_\_\_ 2. Reconciliation of indirect cost rate proposal to audited financial statements, expenditure reports or approved budgets.
- \_\_\_\_ 3. The amount of direct costs incurred on federal awards. The costs should be detailed reflecting salaries, wages, fringe benefits and other direct costs.
- \_\_\_\_ 4. A schedule of fringe benefits and payroll taxes by type and amount with an explanation of the allocation to benefiting activities.
- \_\_\_\_ 5. Certificate of Indirect Costs signed on behalf of the state or local government by an official at the Chief Financial Officer level or above.
- \_\_\_\_ 6. Cost Policy Statement providing background information and cost charging policies and practices.
- \_\_\_\_ 7. Organization chart showing the structure of the agency during the proposal period.
- \_\_\_\_ 8. Capitalization policy, along with equipment use allowance or depreciation schedules.
- \_\_\_\_ 9. Financial data (audited financial statements, formal budgets, accounting reports, etc.) upon which the rate is based.
- \_\_\_\_ 10. Approved Statewide Cost Allocation Plan schedule, if state central service costs are included in the indirect cost rate proposal.
- \_\_\_\_ 11. A listing of grants and contracts identified by Catalog of Federal Domestic Assistance number, federal agency, total dollar amount, and the period of performance. Any indirect cost limitations, such as restricted or ceiling rates or amounts restricted by administrative or statutory regulations, should be identified for each grant or contract.
- \_\_\_\_ 12. Details on any significant accounting changes that are planned and may impact the rate.
- \_\_\_\_ 13. Schedule of unused leave payments to separating employees.
- \_\_\_\_ 14. Schedule showing the details of adjustments to the unrestricted rate in order to calculate the restricted rate.
- \_\_\_\_ 15. Schedule of all subawards, including names and amounts. The schedule should reflect the amounts over \$25,000 that are excluded from the base calculation.