



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D. C. 20503

OFFICE OF FEDERAL  
FINANCIAL MANAGEMENT

June 12, 2000

Mr. Roger La Rouche  
Acting Assistant Inspector General for Audits  
U.S. Department of Interior  
1849 C Street, N.W.  
Washington, DC 20240

Dear Mr. La Rouche:

I am writing in response to your letter of April 26, 2000, regarding the treatment of certain items of costs in accordance with the Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments." I understand that Gilbert Tran of my staff has previously met with you and Indian tribal representatives on several occasions to address the questions below. As a result of these meetings, you have requested the answers in writing for documentation.

- 1. Should facilities costs always be treated as indirect costs? Should facilities costs be charged directly to appropriate programs when they are funded as part of a separate contract, grant or compact? Can facilities costs be charged directly to multiple programs based on square footage of occupants funded by these programs?*

Facilities costs generally should be treated as indirect costs since these costs are usually incurred for a common or joint purpose benefitting more than one activity (or program). These costs can be treated as direct costs to programs when: (1) they can be readily identified to benefitting activities, without extraneous effort by the grantees; or (2) when these costs are required to be identified as program costs by the program statute. Regardless of how facilities costs are charged, the treatment should be consistent to avoid duplicate claims for these costs. As such, indirect cost rates issued by cognizant agencies should stipulate the types of costs that are included in the indirect cost pools to avoid improper reimbursement.

The funding method is not the determining factor in the classification of facilities costs as direct or indirect. The determining factor is the ability of the grantee to identify these costs with Federal projects. When facilities costs are funded separately as part of a separate contract, grant or compact, the grantee might be required to identify the facilities cost amounts (charged directly or indirectly) associated with the contract, grant or compact.

Costs supporting multiple programs can be charged as direct provided that the costs are allocated on bases that reflect relative benefits to the programs. Square footage of occupants is generally the basis used to distribute facilities costs to benefitting activities (or programs). However, as indicated

in OMB Circular A-87, facilities costs (along with State/local wide central service costs, general administration costs, and accounting and personnel costs) should typically be treated as indirect costs rather than direct costs, unless they are required to be identified as direct costs in the program statute. To require the charge of facilities costs as direct costs may cause an inconsistent accounting of these costs among Federal programs, since these costs are normally treated as indirect costs. If the grantees are using the simplified method to compute indirect cost rates, charging facilities costs as direct costs may also result in unnecessary additional administrative burden.

2. *Are tribal council costs allowable? What documents should be submitted by the tribes to substantiate the portion allocable to the indirect cost pool?*

General government expenses are unallowable in accordance with item 23.a. (2), Attachment B of Circular A-87. The tribal council activities similar to those typically performed by state legislatures or city councils fall into this category and are, therefore, unallowable. However, there may be instances, particularly in smaller tribes, where a tribal council member "wears two hats." For example, a council member, in addition to participating in the general governance of the tribe, might also be the director of the tribe's housing agency. In such cases, it would be acceptable to charge a pro-rata share of the time or salary of the council member to the housing agency's indirect cost pool and allocate these costs to all benefitting programs. In order to substantiate these costs, the tribes must document through a survey of effort reports for tribal councils personnel or by some other reasonable means (as approved by your agency) for the allowable portion that is allocable to the indirect cost pool.

I hope the above information is helpful. If you have additional questions, please call Gilbert Tran, Technical Manager, at (202) 395-3052.

Sincerely,



Joseph L. Kull  
Deputy Controller