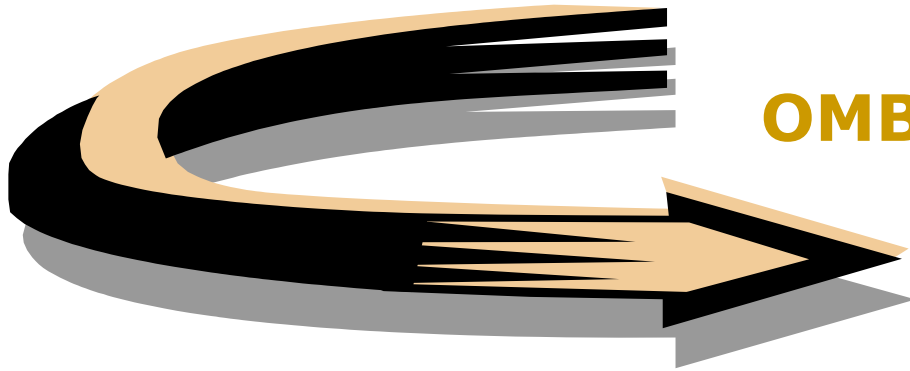


# ATTACHMENT 5



**OMB CIRCULAR A-87**

## Attachment E State and Local Indirect Cost Rate Proposals

# Attachment E- State and Local Indirect Cost Rate Proposals General

1. Indirect costs are:
  - a. Costs that have been incurred for common or joint purposes.
  - b. Costs that benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved.

After direct costs have been determined and assigned directly to Federal awards and other activities as appropriate, indirect costs are those remaining to be allocated to benefited cost objectives. (continued)

# **Attachment E- State and Local Indirect Cost Rate Proposals General (continued)**

A cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a direct cost.

2. Indirect costs include (a) the indirect costs originating in each department or agency of the governmental unit carrying out Federal awards and (b) the costs of central governmental services distributed through the central service cost allocation plan. (continued)

# **Attachment E- State and Local Indirect Cost Rate Proposals General (continued)**

3. Indirect costs are normally charged to Federal awards by the use of an indirect cost rate. A separate indirect cost rate(s) is usually necessary for each department or agency of the governmental unit claiming indirect costs under Federal awards.

Guidelines and illustrations of indirect cost proposals are provided in a brochure published by the Department of Health and Human Services entitled "A Guide for State and Local Government Agencies: Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government." A copy of this brochure is included in your training material. (continued)

# **Attachment E- State and Local Indirect Cost Rate Proposals General (continued)**

4. Because of the diverse characteristics and accounting practices of governmental units, the types of costs which may be classified as indirect costs cannot be specified in all situations. However, typical examples of indirect costs may include certain:
  - a. State/local-wide central service costs,
  - b. General administration of the grantee department or agency,
  - c. accounting and personnel services performed within the grantee department or agency,
  - d. depreciation or use allowances on buildings and equipment, the costs of operating and maintaining facilities, etc. (continued)

# Attachment E- State and Local Indirect Cost Rate Proposals General (continued)

- Indirect Costs include:
  - Those originating at the department or agency level and
  - Those originating at higher levels of the governmental unit (i.e., State/local-wide central cost allocation plan (SWCAP) costs, etc.) (continued)

# Levels of Indirect Costs

## **SWCAP**

State /local wide  
Cost allocation  
Plan

**SWCAP**

**Departmental  
Administration**

**Divisional  
Administration**

# State Wide Cost Allocation Plan

- Personnel
- Budgeting
- Data Center

Accounting  
Treasurer  
Auditor



SWCAP



# Departmental Administration

- Director
- Secretaries
- Space

Asst. Director  
Receptionist  
Supplies



Departmental  
Administration

# Divisional Administration

- Director
- Secretaries
- Space

Asst. Director  
Receptionist  
Supplies



Divisional Administration

# Attachment E- State and Local Indirect Cost Rate Proposals DEFINITIONS

1. "Indirect cost rate proposal" means the documentation prepared by a governmental unit or subdivision thereof to substantiate its request for the establishment of an indirect cost rate.
2. "Indirect cost rate" is a device for determining in a reasonable manner the proportion of indirect costs each program should bear. It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base.
3. "Indirect cost pool" is the accumulated costs that jointly benefit two or more programs or other cost objectives.  
(continued)

# **Attachment E- State and Local Indirect Cost Rate Proposals DEFINITIONS (continued)**

4. "Base" means the accumulated direct costs (normally either total direct salaries and wages or total direct costs exclusive of any extraordinary or distorting expenditures) used to distribute indirect costs to individual Federal awards. The direct cost base selected should result in each award bearing a fair share of the indirect costs in reasonable relation to the benefits received from the costs.
5. "Predetermined rate" means 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. (continued)

# **Attachment E- State and Local Indirect Cost Rate Proposals**

## **DEFINITIONS (continued)**

**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.) Predetermined rates may not be used by governmental units that have not submitted and negotiated the rate with the cognizant agency. In view of the potential advantages offered by this procedure, negotiation of predetermined rates for indirect costs for a **period of two to four years** should be the norm in those situations where the cost experience and other pertinent facts available are deemed sufficient to enable the parties involved to reach an informed judgment as to the probable level of indirect costs during the ensuing accounting periods. (continued)

# **Attachment E- State and Local Indirect Cost Rate Proposals DEFINITIONS (continued)**

6. "Fixed rate" means an indirect cost rate which has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual, allowable costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.
7. "Provisional rate" means 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. (continued)

# **Attachment E- State and Local Indirect Cost Rate Proposals DEFINITIONS (continued)**

8. "Final rate" means an indirect cost rate applicable to a specified past period which is based on the actual allowable costs of the period. A final audited rate is not subject to adjustment.
9. "Base period" for the allocation of indirect costs is the period in which such costs are incurred and accumulated for allocation to activities performed in that period. The base period normally should coincide with the governmental unit's fiscal year, but in any event, shall be so selected as to avoid inequities in the allocation of costs.

# Allocation of Indirect Costs and Determination of Indirect Cost Rates

**Select the base which results in  
allocation of indirect costs  
according to “benefits received”,  
the golden rule of Federal cost  
principles.**



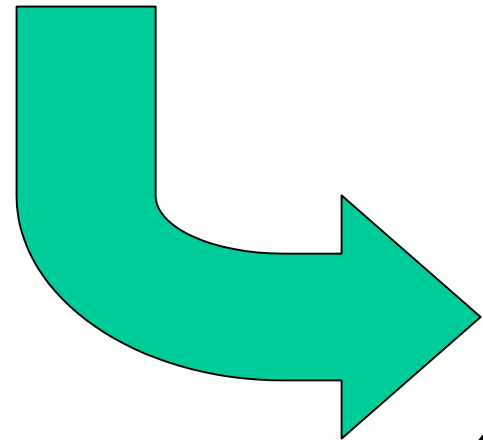
# Indirect Cost Rates

## Examples of Allocation Bases

- Direct S/W (Salaries/Wages) including FB(Fringe Benefits)
- Direct S/W including release time, but excluding all other FB
- Modified Total Direct Cost(various)
  - Total Direct Costs excluding capital expenditures and flow-through funding

# Methods of Allocation

The most commonly used methods for allocating indirect costs for A-87 agencies are known as the Simplified Method and the Multiple Allocation Base Method



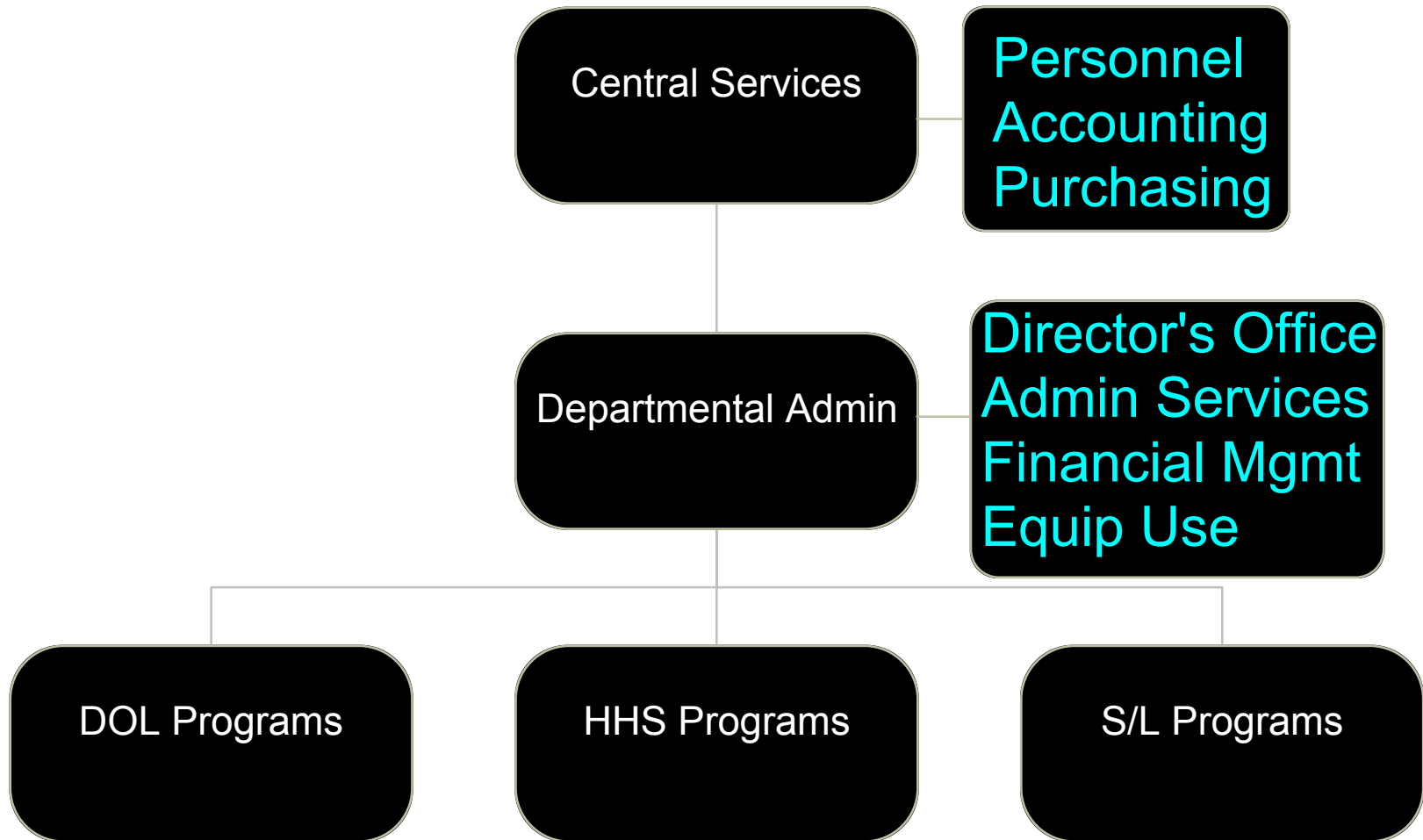
# Methods of Calculation



- **Simplified Method**

- All programs benefit from indirect costs to about the same degree
- May be used if the ratio of indirect costs to the base in each division reasonably approximates this ratio in the division(s) which house Federal programs or is otherwise not inequitable to the Federal government.

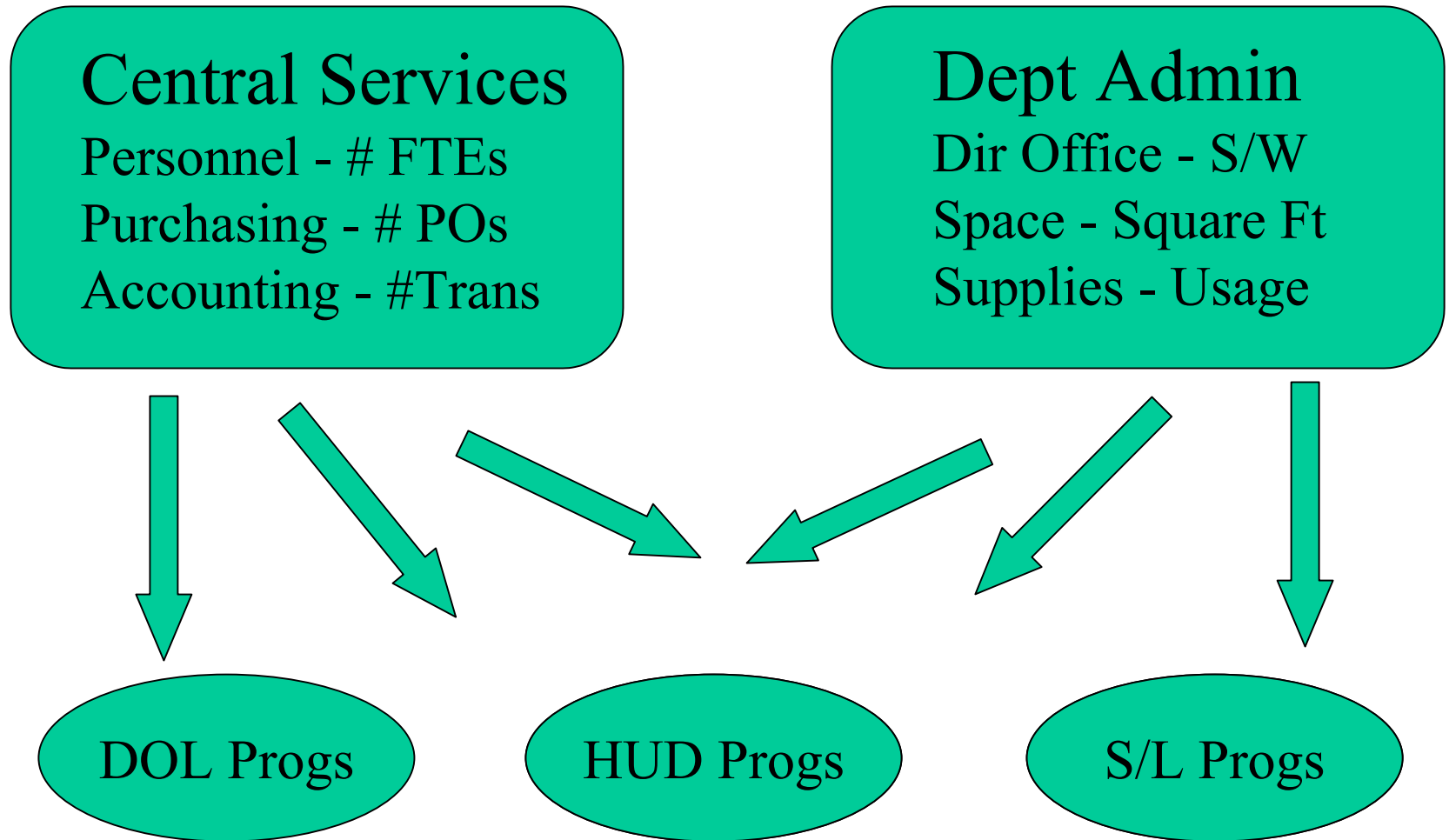
# Simplified Method



# Methods of Calculation

- **Multiple Allocation Base**
  - All programs do not benefit to the same degree
  - Indirect costs are pooled and allocated to direct cost objectives based on various distribution bases (for example, # of transactions, # of purchase orders, # of FTE's)
  - Primarily used by A-87 organizations that capture costs by department or division (for example, accounting, purchasing, personnel, etc.)

# Multiple Allocation Base Method



# Methods of Calculation

- **Direct Allocation Method**

- All costs are charged directly to programs except for general administration
- Primarily used by Tribal governments and nonprofit organizations
- Various bases are selected to “directly allocate” costs to programs (for example, space allocated based on square footage occupied, copying costs allocated on # of copies by program, etc.)

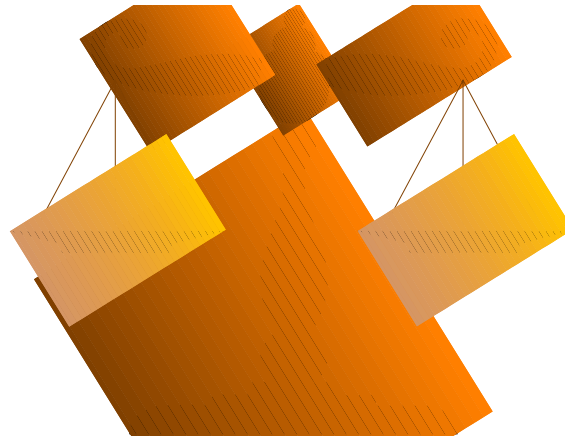
# Allocation of Costs

- Rule #1 - Direct charge when possible.
- The more costs that are charged directly via specific identification or allocated directly, the less indirect costs there will be to be allocated via the indirect cost rates.



# Allocation of Costs

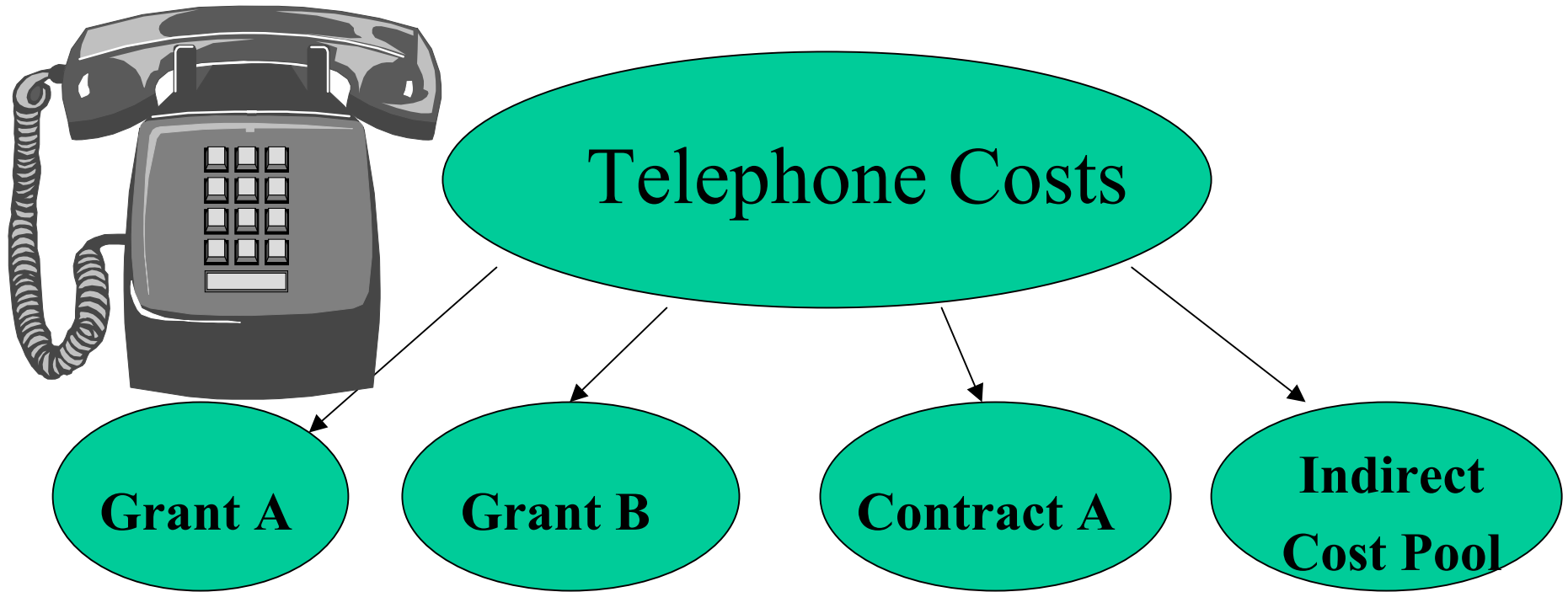
- Any method of distribution can be used if it results in an equitable distribution of costs based on “benefits received”.



# Examples of Allocation Bases



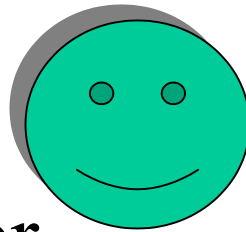
# Telephone costs - # of instruments



Are cell phones allowed?

(Reasonableness is key)

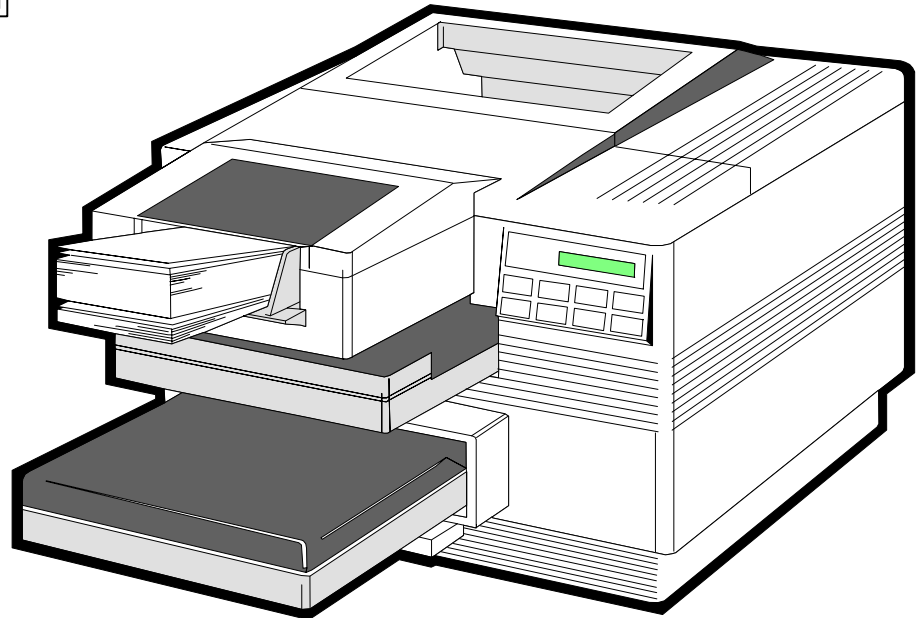
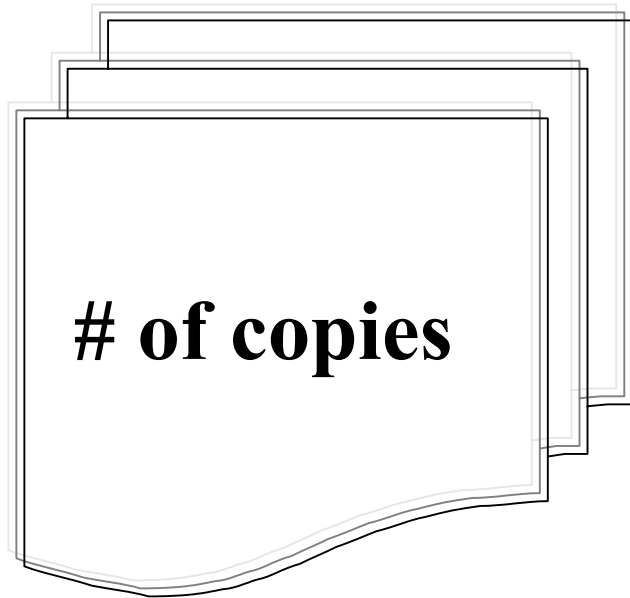
# Motor Pool Costs



Miles driven or  
days used

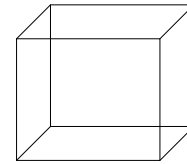


# Printing Costs



# Rental of Office Space

Square Footage



**In fact, the choices are many!**

**Allowable Allocation Bases**

<b><u>Cost Type</u></b>	<b>Direct</b>	<b>Space</b>	<b><u>FTE's</u></b>	<b>Labor</b>	<b>Shared</b>	<b><u>Number of Customers</u></b>	<b><u>Survey/ Sample</u></b>
	<b><u>Cost</u></b>	<b><u>Allocation</u></b>		<b><u>Hours</u></b>	<b><u>Direct Charges</u></b>		
Copiers	X		X	X	X		X
Data Lines	X		X	X	X		X
Equip. Maintenance	X		X	X	X		X
Janitorial	X	X	X	X	X	X	X
Other Operating Costs	X	X	X	X	X	X	X
Postage	X		X	X	X		X
Printing	X		X	X	X		X
Receptionist staff	X		X	X	X	X	X
Rent	X	X	X	X	X	X	X
Resource Room	X	X	X	X	X	X	X
Supplies	X		X	X	X		X
Telephone	X		X	X	X		X
Utilities	X	X	X	X	X	X	X

# Special Indirect Cost Rates

- The following factors may necessitate development of separate indirect cost rates:
  - Physical location
  - Level of admin support required
  - Organizational arrangements
  - Nature of resources employed
  - A combination of the above
- Additionally, some Federal statutes "restrict" reimbursement of certain indirect costs.



# Submission and Documentation of Proposals

- To claim indirect costs on Federal awards, all departments or agencies of the governmental unit must submit an indirect cost rate proposal and related documentation to support those costs.
- The proposal and related documents must be prepared and retained for audit in accord with the record retention requirements in the Common Rule.
- If requested by the Cog Federal agency, the proposal must be submitted for review and approval. (continued)

# Submission Requirements (continued)

- OMB will periodically publish lists of governmental units identifying the appropriate Federal cognizant agencies. The cognizant agency for all governmental units or agencies not identified by OMB will be determined based on the Federal agency providing the largest amount of Federal funds.
- Where a local government only receives funds as a sub-recipient, the primary recipient will be responsible for negotiating and/or monitoring the sub-recipient's plan.
- Each Indian tribal government desiring reimbursement of indirect costs must submit its indirect cost proposal to the Department of the Interior (its cognizant Federal agency). (continued)

# Submission Requirements(continued)

- When required, an indirect cost proposal must be developed and submitted within six months after the close of the governmental unit's fiscal year.(Cog may grant extension)
- Documentation to be included in an indirect cost rate proposal is similar to that previously discussed. (continued)

# Submission of Indirect Cost Rate Proposals (continued)

- Proposals must be submitted annually
  - No later than six months after the end of the organization's fiscal year
  - New grantees must submit within three months after the effective date of the award
  - Extensions of time may be granted

(continued)

# Submission of Indirect Cost Rate Proposals

- Organizational Chart
- Cost Policy Statement
- Financial Reports
- Personnel Cost Worksheet
- Allocation of Personnel Costs

(continued)

# Submission of Indirect Cost Rate Proposals (continued)

- Statement of Employee Benefits
- Indirect Cost Rate Proposal(s)  
reconciled with the financial reports,  
audit report or budget
- A listing of grants and contracts  
showing source, amounts, and relevant  
dates
- A completed Certificate of Indirect Costs

# Negotiation and Approval of Rates

1. Indirect cost rates will be reviewed, negotiated, and approved by the cognizant Federal agency on a timely basis. Once a rate has been agreed upon, it will be accepted and used by all Federal agencies unless prohibited or limited by statute. Where a Federal funding agency has reason to believe that special operating factors affecting its awards necessitate special indirect cost rates, the funding agency will, prior to the time the rates are negotiated, notify the cognizant Federal agency.
2. The use of predetermined rates, if allowed, is encouraged where the cognizant agency has reasonable assurance based on past experience and reliable projection of the grantee agency's costs, that the rate is not likely to exceed a rate based on actual costs. (continued)

# Negotiation and Approval of Rates (continued)

3. The results of each negotiation shall be formalized in a written agreement between the cognizant agency and the governmental unit. This agreement will be subject to re-opening if the agreement is subsequently found to violate a statute, or the information upon which the plan was negotiated is later found to be materially incomplete or inaccurate. The agreed upon rates shall be made available to all Federal agencies for their use.



# Types of Indirect Cost Rates



# TYPES OF INDIRECT COST RATES

- **Billing**
- **Ceiling**
- **Provisional**
- **Final**
- **Fixed**
- **Predetermined**

# TYPES OF INDIRECT COST RATES - Billing Rate

- Rate stated in the award to allow recovery of indirect costs until an indirect cost proposal is completed and submitted.
- Normally only valid for 90 days.
- Set by the Contract/Grant Officer

# TYPES OF INDIRECT COST RATES - Ceiling Rate

- Set by the Contract/Grant Officer
- The maximum rate at which indirect costs may be recovered under a particular award

# TYPES OF INDIRECT COST RATES - Provisional Rate

- A rate based on projected information, historical information, or a combination of the two for the organization's fiscal year
- This rate allows for recovery of indirect costs during the contract/grant period until the rate can be finalized

# TYPES OF INDIRECT COST RATES - Final Rate

- The experienced indirect cost rate based on actual data for the organization's fiscal year
- All provisional indirect cost rates must eventually be “finalized”

# TYPES OF INDIRECT COST RATES - Fixed Rate

- A permanent rate that is not subject to change
- Any differences between estimated and actual costs are carried forward as adjustments to rate computations in future periods
- Seldom issued to nonprofit organizations

# TYPES OF INDIRECT COST RATES - Predetermined Rate

- A rate negotiated for a certain length of time, usually several years
- Not subject to change



# ADDITIONAL SOURCE OF INFORMATION

A Guide for State, Local  
and Indian Tribal Governments  
Cost Principles and Procedures for  
Developing Cost Allocation Plans and  
Indirect Cost Rates for Agreements  
with the Federal Government, ASMB C-10

**This document may be obtained at the  
following website under Reference  
Materials:**

<http://hudweb.hud.gov/po/a/grants/dgms.cfm>

# **Implementation Guide for Office of Management and Budget Circular A-87, ASMB C-10?**

- Provides a uniform approach to determining costs of Federally funded programs.
- Also presents information about the preparation, submission, review, and audit of cost allocation plans and indirect cost rate proposals by governmental units.
- Was developed in coordination with and with the "blessing" of OMB and other concerned Federal agencies. (continued)

# **Implementation Guide for Office of Management and Budget Circular A-87, ASMB C-10? (continued)**

- Provides clarification and procedural guidance to implement Circular A-87.
- Is intended to be consistent with A-87 and all other applicable policies.
- Part 1 provides basic information about A-87 as well as details on information in A-87. (continued)

# **Implementation Guide for Office of Management and Budget Circular A-87, ASMB C-10? (continued)**

- Part 2 covers Attachment A to the Circular, General Principles for Determining Allowable Costs.
- Part 3 deals with Attachment B, Selected Items of costs.
- Part 4 - Attachment C - Requirements for Central Service Cost Allocation Plans.
- Part 5 - Attachment D - Public Assistance Cost Allocation Plans. (continued)

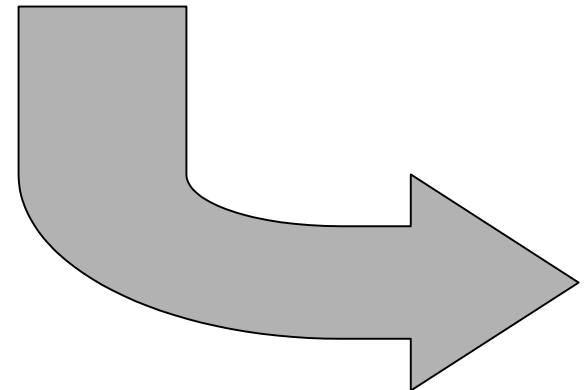
# **Implementation Guide for Office of Management and Budget Circular A-87, ASMB C-10? (continued)**

- Part 6 - Attachment E - State and Local Indirect Cost Rate Proposals.
- Each part is punctuated by related questions and answers intended to provide further clarification of A-87.
- Contains numerous illustrations, sample documents, schedules, etc. (not contained in A-87) (continued)

# **Implementation Guide for Office of Management and Budget Circular A-87, ASMB C-10? (continued)**

**A Sample of the Questions and Answers found in the Guide**

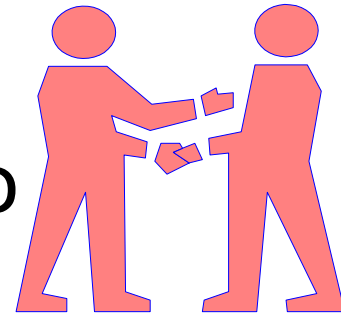
**(paraphrased)**



# Implementation Guide for Office of Management and Budget Circular A-87, ASMB C-10? (continued)

## A Sample of the Q&A

- **Question** - 2-5 Does A-87 apply to performance partnerships?
- **Answer** - Yes, OMB Circular A-87 applies to performance partnership programs. (i.e., one stop service centers) (continued)

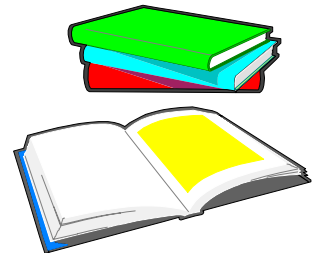


# Implementation Guide for Office of Management and Budget Circular A-87, ASMB C-10? (continued)

## A Sample of the Q&A

- **Question** - 3-1 How are the cost allowability requirements of A-87 different from those of Circular A-21 and A-122?

- **Answer** - There are currently some differences between the various sets of OMB cost principles, but they are relatively minor. OMB plans to eliminate the remaining differences as the circulars continue to be revised. (continued)

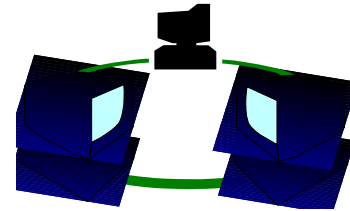




# Implementation Guide for Office of Management and Budget Circular A-87, ASMB C-10? (continued)

## A Sample of the Q&A

- **Question** - 3-3 Must developmental and testing costs for ADP systems and equipment be capitalized?
- **Answer** - Currently, there is no industry-wide treatment of these costs. Governmental units are to treat these costs in accordance with their established capitalization policies.  
(continued)



# **Implementation Guide for Office of Management and Budget Circular A-87, ASMB C-10? (continued)**

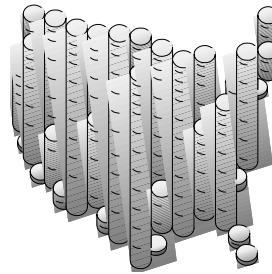
## **A Sample of the Q&A**

- **Question** - 3-28 Can the depreciable lives of assets used in financial statements differ from those used in filing claims with the Feds?
- **Answer** - Depreciable lives and classes of assets in the financial statements must be used by all components of the government in their claims under Federal awards.  
(continued)

# Implementation Guide for Office of Management and Budget Circular A-87, ASMB C-10? (continued)

## A Sample of the Q&A

- **Question - 3-29** If a State does not depreciate equipment on its financial statements, do A-87 consistency principles prohibit the individual state agencies from using depreciation?
- **Answer - No.** OMB granted an exception to the consistency principles. Even if the State does not use depreciation the components can.  
(continued)



# Implementation Guide for Office of Management and Budget Circular A-87, ASMB C-10? (continued)



## A Sample of the Q&A

- **Question - 3-30** How is a conversion from use allowance to depreciation handled?
- **Answer -** The asset's imputed book value at the time of conversion is to be established by assessing pro forma depreciation for those periods when use allowance was applicable. The remaining balance is then depreciated over the remaining useful life. (continued)

# Implementation Guide for Office of Management and Budget Circular A-87, ASMB C-10? (continued)

## A Sample of the Q&A

- **Question** - 3-31 Can both depreciation and use allowance be used on different classes of assets?
- **Answer** - Generally, yes. Only one method may be applied to a single class of assets. Exception: ISFs and enterprise funds...must use depreciation in accounting for assets.  
(continued)

# Implementation Guide for Office of Management and Budget Circular A-87, ASMB C-10? (continued)

## A Sample of the Q&A 3-32

- **Question** - Under what circumstances can accelerated depreciation be claimed?



- **Answer** - Straight line must be used except in rare cases. Alternative depreciation procedures may be acceptable if an asset's consumption is based on unit of production rather than estimated useful life. (continued)

# Implementation Guide for Office of Management and Budget Circular A-87, ASMB C-10? (continued)

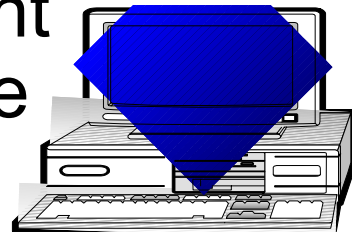
## A Sample of the Q&A 3-33

- **Question** - Under what circumstances may a use allowance be allowed for assets which have been fully depreciated?
- **Answer** - Only if it can be shown that the Federal programs had been charged with little or no depreciation expense in the past. (Rationale: Increased maintenance can be expensed & capital improvements repairs, or renovations can be recovered via depreciation.) (continued)

# Implementation Guide for Office of Management and Budget Circular A-87, ASMB C-10? (continued)

## A Sample of the Q&A

- **Question** - 3-37 Assuming a government adopts the \$5,000 limit and purchases a \$1M computer system, if no single component costs more than \$5,000, can the \$1M be expensed.
- **Answer** - No. The components of the computer system make it useable for the purpose for which it was acquired and therefore establishes the "system" as the capital exp.





Questions?

