

Attachment 10

Case Study

You are the Chief Financial Officer of the State of Confusion, Department of Housing and Urban Development (HUD). Recently you became aware of Federal grant programs in one of the Operating Divisions in the Department, the Division of Better Housing. You are also aware of the requirements of OMB Circular A-87 relative to cost allocation plans and indirect cost rate proposals. Wanting to collect indirect costs from Federal grants as appropriate, you directed one of your staff accountants to prepare a departmental cost allocation plan for the year ended 6/30/01 and a computation of the final indirect cost rate for the Division of Better Housing which contains the Federal grant programs as well as some non-Federal programs.

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Case Study (continued)

You tell your accountant to use the organization chart that contains the following information:

- **Central Services Offices** (which benefit all programs, Federal and non-Federal):
 - Department Director's Office
 - Purchasing
 - Personnel
 - Accounting
 - Building Maintenance

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Case Study (continued)

You tell your accountant to use the organization chart that contains the following information:

- **Operating Divisions:**
 - State School to Work
 - State Health
 - State Teacher Fund
 - State Computer Science
 - Better Housing
 - All Other Divisions

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Case Study (continued)

Additional information is provided to your accountant as follows:

1. All costs are based on the agency's audited financial statements for the period 7/1/00-6/30/01.
2. All Central Service costs provide benefits to all operating divisions, Federal and non-Federal. The following allocation bases are equitable and easy to track:
 - Director's Office # of employees
 - Purchasing # of purchase orders
 - Personnel # of employees
 - Accounting # of transactions
 - Building Mtce. square feet of space occupied

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3. Costs allocated to the Department of HUD through the HHS-approved SWCAP for the period total \$89,317.
4. Only the Division of Better Housing receives any Federal funding, therefore, it's the only division for which you need to have an indirect cost rate developed.

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5. Indirect costs at the division level (Division of Better Housing) are made up of the salaries, fringe benefits and indirect support costs for the Division Director, an Administrative Assistant and a Secretary. All other positions in the Division are considered direct and the direct salaries and wages for those positions total \$1,796,211. The cognizant Federal agency has agreed that direct salaries and wages is the appropriate base for the Division to use for distributing indirect costs.

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Case Study (continued)

A few days later, your accountant gave you the completed cost allocation plan for the Department of HUD and the indirect cost rate calculation for the Division of Better Housing as represented on the following two pages.

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Central Service Cost Allocation Plan State of Confusion

Department of Housing and Urban Development

For the period 7/1/00-6/30/01

Operating Division/Unit	Central Service Divisions/Units					Total Allocated Costs**
	Dir Office	Purchasing	Personnel	Accounting	Bldg Mtce	
State School to Work	\$14,023	\$31,111	\$27,769	\$41,243	\$5,263	\$119,409
State Health	12,981	22,632	25,706	36,288	5,413	103,020
State Teacher Fund	3,286	4,266	6,507	10,998	4,924	29,981
State Computer Science	11,322	2,624	22,421	8,912	3,986	49,265
Better Housing*	13,145	32,624	26,031	44,611	8,204	124,615
All Other Divisions	<u>31,428</u>	<u>86,126</u>	<u>62,236</u>	<u>96,435</u>	<u>13,950</u>	<u>290,175</u>
TOTALS	<u>\$86,185</u>	<u>\$179,383</u>	<u>\$170,669</u>	<u>\$238,487</u>	<u>\$41,740</u>	<u>\$716,464</u>
<i>Allocation Bases</i>	<i># of emps</i>	<i># of po's</i>	<i># of emps</i>	<i># of trans</i>	<i>sq feet</i>	

*Includes Federal grant programs, state programs and locally-funded job training programs.

**Includes HHS-Approved SWCAP costs of \$89,317.

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Indirect Cost Rate Computation

State of Confusion

Department of HUD - Better Housing Division

For the period 7/1/00-6/30/01

<u>Description</u>	<u>Agency I/C Pool</u>
Allocated Central Services	\$124,615 *
Salaries	125,362
Fringe Benefits	37,216
Travel/Training	4,695
Telephone	2,155
Postage	817
Printing	1,821
Rent/Equipment	7,864
Donated Services	10,685
Supplies	3,468
Consultants	11,624
Entertainment	667
Dues & Subscriptions	654
Advertising	3,945
Maintenance-Equipment	2,002
Legal Fees	5,136
Miscellaneous	<u>5,421</u>
Total I/C Pool	<u>\$348,147</u>
<u>Total Indirect Cost Pool</u>	<u>\$348,147</u>
Total Direct Salaries (Base)	\$1,826,211
Indirect Cost Rate	<u>19.06%</u>

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Being the meticulous Chief Financial Officer that you are, you decided to verify the accountant's work to make sure that it was in compliance with OMB Circular A-87.

Therefore, you performed a review of detailed accounting records the accountant had used in producing the two documents.

You found that the departmental cost allocation plan was correct and in accordance with OMB Circular A-87.

However, your review of the accountant's work and detailed records revealed the following information **relative to the computation of the indirect cost rate for the Better Housing Division**:

1. The travel/training costs of \$4,695 included \$3,500 of costs for the Director to attend division-related meetings

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and conferences and \$1,195 for the Administrative Assistant to attend a real estate course as part of an effort to become a licensed real estate agent.

2. No bad debt write-offs were included in the indirect cost pool
3. The telephone costs of \$2,155 included \$1,000 for the Division Director's cellular phone which has been deemed necessary and reasonable by Federal auditors, however, you found documentation showing that 50% of the phone use was for the Director's personal business.
4. Donated services were valued at the current market rates for staff time donated.

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5. Consultant costs of \$11,624 were for the Division's share of the single audit at \$5,624 and retainer fees of \$6,000 for consulting services for which there is bona fide evidence that services were rendered and indirectly beneficial to the Federal grant program.
6. Entertainment costs of \$667 represented the cost of light-beer furnished for the Division's annual award ceremony.
7. Dues and subscription costs of \$654 consisted of \$500 for the Division Director's membership in a related professional organization and \$154 for subscriptions to pornographic periodicals.

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8. Advertising costs of \$3,945 consisted of \$3,000 for the advertisements for the recruitment of divisional personnel and \$945 for state vacation promotions.
9. Equipment maintenance costs were for maintenance contracts on all office equipment used by indirect staff.
10. Legal fees of \$5,136 were costs associated with a suit brought against the U. S. Department of Housing and Urban Development for unfair distribution of grant funds.

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11. Miscellaneous costs of \$5,421 consisted of:
 - a) Costs of attempting to influence Federal grant legislation - \$1,000.
 - b) Underrecovery of costs on a Federal grant in another department - \$2,000.
 - c) Equitable costs of the employee break room for Division staff - \$2,421.

12. The base included \$30,000 of salaries associated with out-stationed employee from another agency working at an off-site itinerary program office.

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Assignment REQUIRED

- A. Based on the above information, list the adjustments necessary to correct the Division's indirect cost rate computation.
- B. Compute the revised indirect cost rate for the Division of Better Housing.

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WORKSHEET

Indirect Cost Rate Computation
Department of HUD
Better Housing Division
For the period 7/1/00-6/30/01

<u>Description</u>	<u>Agency</u> <u>I/C Pool</u>	<u>CFO's</u> <u>Adjustments</u>	<u>Revised</u> <u>Agency</u> <u>I/C Pool</u>
Allocated Central Services Salaries	\$124,615 *		
	125,362		
Fringe Benefits	37,216		
Travel/Training	4,695		
Telephone	2,155		
Postage	817		
Printing	1,821		
Rent/Equipment	7,864		
Donated Services	10,685		
Supplies	3,468		
Consultants	11,624		
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Maintenance-Equipment	2,002		
Legal Fees	5,136		
Miscellaneous	<u>5,421</u>		
Total I/C Pool	<u>\$348,147</u>		
<u>Total Indirect Cost Pool</u>	<u>\$348,147</u>		
Total Direct Salaries (Base)	\$1,826,211		
Indirect Cost Rate	<u>19.06%</u>		
*From the Department's Central Service Cost Allocation Plan			