

Overview of Federal Cost Allocation & Indirect Cost Rates (2 CFR Part 200) for The State of Washington

Presented by:

MGT Consulting Group

Bret Schlyer, Vice President

bschlyer@mgtconsulting.com

316-214-3163

Cost Principles and Requirements

- States/Territories and Local Governments
 - 2 CFR Part 200 “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards”
 - <https://cfo.gov/grants/>
 - Subpart E - Cost Principles
 - Appendix V – State/Local Govt Central Service Cost Allocation Plans
 - Appendix VII – States & Local Government Indirect Cost Proposals
 - ASMB C-10 “Implementation Guide for OMB Circular A-87
 - <http://rates.psc.gov/fms/dca/s&l.html>

Federal Cost Principles (formerly OMB Circular A-87)

- Entered into Code of Federal Regulations (2 CFR Part 225) in August 2005, modified and moved to 2 CFR Part 200) in December of 2013
- Applicable since 1969
- Provides principles and procedures for the identification and recovery of
 - Direct costs
 - Government-wide indirect costs
 - Agency/Department indirect costs
 - Billed services

2 CFR Part 200 Structure

- Subpart A – Acronyms and Definitions
- Subpart B – General Provisions
- Subpart C – Pre-Federal Award Requirements and Contents of Federal Awards
- Subpart D – Post Federal Award Requirements
- Subpart E – Cost Principles
- Subpart F – Audit Requirements

Subpart A: Definitions

- § 200.9 Central Services Cost Allocation Plan
 - the documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a state, local government, or Indian tribe on a centralized basis to its departments and agencies
- § 200.57 Indirect cost rate proposal
 - the documentation prepared by a non-Federal entity to substantiate its request for the establishment of an indirect cost rate

Subpart A: Definitions

- § 200.74 Pass through entity
 - a non-Federal entity that provides a sub award to a subrecipient to carry out part of a Federal program.
- § 200.93 Subrecipient
 - a non-Federal entity that receives a sub award from a pass-through entity to carry out part of a Federal program; may also be a recipient of other Federal awards directly from a Federal awarding agency.

2 CFR Part 200: Effective Date for Cost Allocation and Indirect Rates

- Existing indirect rate agreements will remain in place until a newly re-negotiated rate goes into effect
- Non-Federal agencies can begin submitting cost allocation plans and indirect cost rates based on the 2 CFR Part 200 for fiscal years beginning after 12/26/14



Subpart B: Basic Principle

“The principles are designed to provide that Federal awards bear their fair share of cost recognized under these principles except where restricted or prohibited by statute”

Subpart E (Cost Principles): § 200.401

Application

- Federal awards
- Internal service fund billings
- Inter-agency billings
- Sub-awards
- must be used by the non-Federal entity as a guide in the pricing of fixed-price contracts and subcontracts where costs are used in determining the appropriate price.

Subpart E: §200.402-11 Basic Considerations

- Necessary and reasonable
- All activities charged uniformly
- Allocable
- Authorized under state or local laws
- Not otherwise restricted by statute
- Consistent treatment
- In accordance with GAAP
- Not included as a cost of another Federal award
- Net of all applicable credits
- Adequately documented

Subpart E: Direct & Indirect Costs

- **Direct Cost** - can be identified specifically with a particular final cost objective. §200.413
- **Indirect Cost** - incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. §200.56

Subpart E: General Provisions for Selected Items of Cost

- Begins at §200.420
 - Principles for establishing cost allowability
 - Discussion on 55 cost items
 - Should review all items, many include caveats.
- Today's presentation
 - Discussion of unallowable cost items
 - Discussion of costs which commonly incur audit/review findings

Subpart E: Unallowable Costs

- Advertising for public relations §200.421
 - Advertising for recruitment, procurement, disposal/surplus materials, program outreach are allowable
- Alcoholic beverages §200.423
- Audit services §200.425
 - Unallowable if required Single Audit is not conducted
 - Unallowable if exempt from Single Audit.
 - Unallowable if don't 'support' the Single Audit, and aren't an integral part of the system of internal controls.
 - Performance Audits
- Bad debts §200.426
- Contingencies § 200.433

Subpart E: Unallowable Costs (Continued)

- Contributions and donations §200.434
 - Value of donated services or depreciation on property can be used to meet cost sharing or matching requirements
- Legal expenses related to claims against Federal government §200.435
- Entertainment §200.438
- Capital expenditures \$5,000 and greater §200.439
 - Need permission if your threshold is higher.
 - Software commonly recognized as having higher thresholds.
- Fines and penalties §200.441
- Fund raising & investment management §200.442

Subpart E: Unallowable Costs (Continued)

- General government §200.444
 - Governor or chief executive of entity
 - Legislatures or governmental body
 - Judiciary Branch
 - Prosecutorial activities, fire and police
- Goods and services for personal use §200.445
- Idle facilities §200.445
 - Allowable if necessary to meet workload fluxuations
 - Allowable for 1 year if necessary at time acquired
- Lobbying §200.450
- Losses on other awards or contracts §200.451

Subpart E: Unallowable Costs (Continued)

- Interest on borrowed capital §200.449
 - Allowable if to acquire capital assets
 - Allowable in fiscal years beginning after Jan 1, 2016 if to acquire intangible assets, including patents & software.
- Country club, social or dining memberships §200.454
 - Memberships in orgs with primary purpose of lobbying.
- Selling and marketing §200.467
- Self-assessed taxes that disproportionately impact federal programs §200.467
- Termination costs applicable to sponsored agreements (B.41)

Subpart E: Personal Services Compensation

§200.430

- Must be reasonable
 - Merit system
 - Labor market compensation survey
 - Incentive pay OK
- Fringe benefits §200.431
 - Unused leave (termination or retirement) as indirect only
 - Leave accrual - lesser of accrued or funded
 - *Direct Salaries rate base*
 - Be careful if you are using this as paid time off, even for salaried staff, is considered fringe benefits and not salary in 2 CFR Part 200.

Subpart E: Personal Services Compensation

§200.430

- Post Retirement Health Benefits §200.431
 - Must be treated as an indirect cost
- Severance pay §200.431
 - Must be treated as an indirect cost
 - Payments for unused leave.
 - Mass severance must have prior approval

Subpart E: Documentation of Personal Services

Costs §200.430

- Documentation requirements are similar to A-87 rules, but less proscriptive
- Records must accurately reflect the work performed
 - Internal controls assure that charges are accurate, allowable and properly allocated
 - Incorporated into official records
 - Reflect total activity for which employee is compensated
 - Comply with established accounting policies & practices
 - Budget estimates OK for interim accounting purposes if tried up
 - Support the distribution of costs among specific activities if they work on multiple activities

Subpart E: Documentation of Personal Services Costs §200.430

- Types of multiple activities
 - More than one federal award
 - Federal award and a non-federal award
 - An indirect activity and a direct activity
 - Two or more indirect activities allocated differently
 - An unallowable activity and a direct or indirect activity
- Signed personnel activity reports no longer required unless your existing system doesn't meet the criteria outlined in §200.430

Subpart E: Documentation of Personal Services

Costs §200.430

- Personnel Activity Reports
 - After the fact distributions
 - Must account for total activities
 - Prepared at least monthly
 - Must coincide with one or more pay periods
 - Must be signed by employee

Subpart E: Documentation of Personal Services

Costs §200.430

- Substitute systems
 - Random moment sampling
 - “Rolling” Time studies
 - Case counts
 - Other quantifiable measures
 - Must have prior approval

Subpart E: Depreciation §200.436

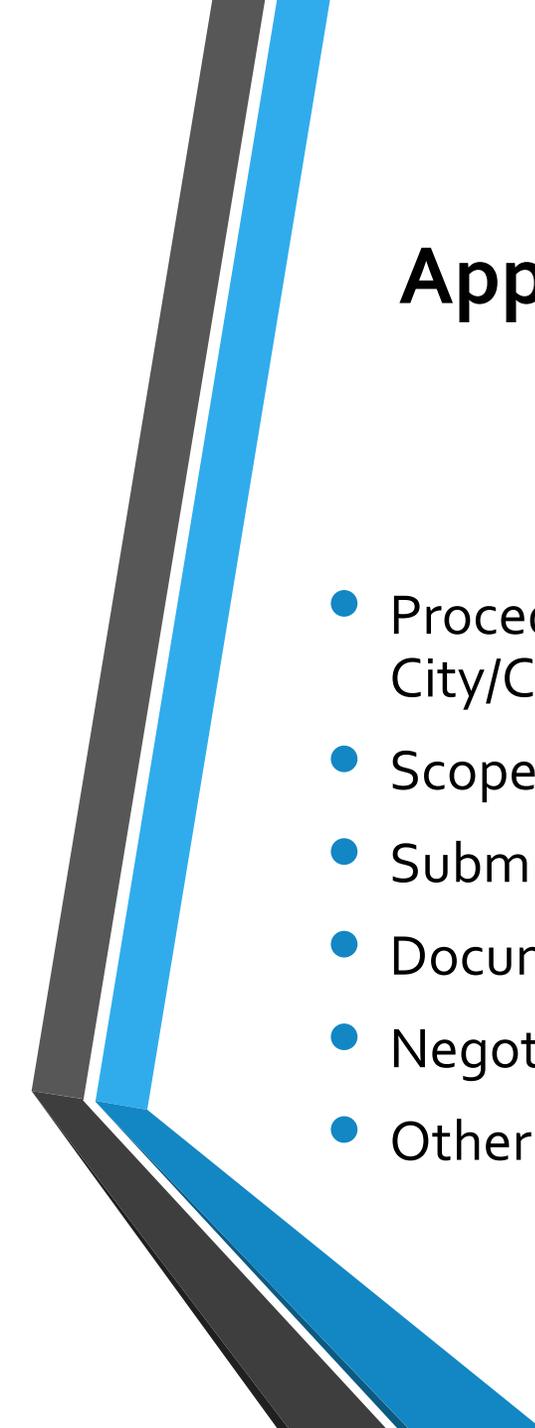
- Use Charge no longer allowed
- Capitalization policy
 - Lesser of government policy or \$5,000
- Costs to be excluded
 - Land
 - Portion borne or donated by Federal government
 - Any portion provided as a matching requirement
- Depreciation methods
 - Straight line
 - Other must be documented
- Physical inventories every two years

Subpart E: Idle Facilities §200.446

- All associated costs of idle facilities are unallowable
- Exception
 - Necessary to meet fluctuations in workload
 - Changes in program requirements
 - Idle not to exceed 1 year

Subpart E: Space Rental §200.465

- Normally allowable
- Must be reasonable rates
- Rates must be determined as if governmental unit continued to own for:
 - Sale and lease-back Arrangements
 - Less than arms length leases



Appendix V: State/Local Government Central Service Cost Allocation Plans

- Procedures and requirements for developing and submitting SWCAP or City/County-wide CAP
- Scope of CAP
- Submission requirements
- Documentation requirements
- Negotiation and approval process
- Other policies

Appendix V: State/Local Government Central Service Cost Allocation Plans

- Include all central service costs to be claimed
 - Section I - Allocated
 - Section II - Billed
- Omitted costs are subject to disallowance
 - Section II billed services is where this is the most important

Appendix V: State/Local Government Central Service Cost Allocation Plans

- States
 - Submitted annually to CAS of DHHS
 - Submitted within six months after year end
- Local Governments
 - Submit annually if 'major local government'
 - >\$100m in direct federal awards
 - Prepare and retain for audit if not 'major'
 - Where local govt only receives federal money as subrecipient, the pass-through entity is responsible for monitoring the subrecipient's plan.

Appendix V: State/Local Government Central Service Cost Allocation Plans

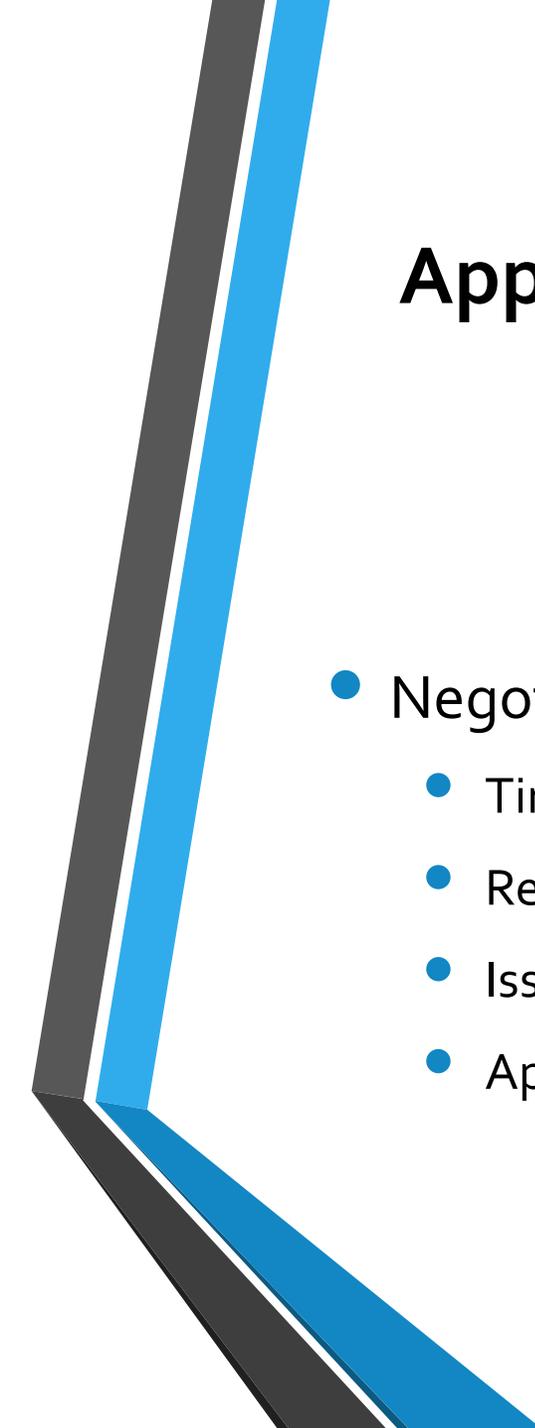
- General Documentation Requirements
 - Organization chart
 - Comprehensive Annual Financial Report
 - Audited financial statements
 - Certificate of Cost Allocation Plan
 - All allocated cost are allowable in accordance with 2 CFR 200
 - All costs are properly allocable to Federal awards
 - Consistent treatment of costs
 - Must be signed by an official who is authorized to legally bind the non-Federal entity. § 200.415

Appendix V: State/Local Government Central Service Cost Allocation Plans

- Documentation required for allocated services
 - Brief description of the service
 - Identification of the unit rendering the service
 - Operating agencies receiving the service
 - Items of expense included in the cost
 - Method used to distribute the cost
 - Summary schedule of allocations to benefited agencies

Appendix V: State/Local Government Central Service Cost Allocation Plans

- Documentation for Billed Services
 - Internal service funds with budget of >\$5M
 - Generally not recognized.
 - Self-insurance funds
 - Fringe benefits
 - Other billed services
- Service descriptions, billing methodology, balance sheet, income statement, revenue by customer, Fund balance reconciliation



Appendix V: State/Local Government Central Service Cost Allocation Plans

- Negotiation & Approval
 - Timely basis
 - Review within six months of receipt
 - Issuance of a central service cost allocation negotiation agreement
 - Applicable to all Federal programs

Appendix V: State/Local Government Central Service Cost Allocation Plans

- Other Policies
 - Each billed central service activity must maintain profit/loss financial statements.
 - Each billed service allowed 60 day working capital reserve.
 - Billed services required to annually adjust rates
 - Requirements related to “carry-forward” or “roll-forward” adjustments.
 - To true up allocations.
 - Record retention same as Subpart D of 2 CFR Part 200.

Appendix VII: State/Local Government Indirect Cost Proposals

- Procedures and requirements for developing and submitting an agency/departmental ICRP
- An ICRP should include
 - Information on department
 - Schedules identifying and documenting the department's indirect costs
 - Schedules documenting the calculation of one or more indirect cost rates
 - Signed certificate of indirect costs

Appendix VII: State/Local Government Indirect Cost Proposals

- Submission Requirements
 - Submission to federal cognizant agency required if receive more than \$35M in direct federal funding
 - Submitted within six months after year end
 - Departments receiving less direct federal funding must prepare ICRP, but just retain for audit
 - Pass-through agencies are responsible for negotiating and/or monitoring the ICRP of their subrecipients

Appendix VII: State/Local Government Indirect Cost Proposals

- Documentation Requirements
 - Rate development information
 - Subsidiary work sheets and other relevant data on indirect costs
 - Work sheets should be referenced and reconciled to agency financial statements
 - Work sheets providing the calculation of the indirect cost rate(s)

Appendix VII: State/Local Government Indirect Cost Proposals

- Documentation Requirements
 - A copy of the financial data upon which the ICRP is based – may require one or all of the following:
 - Audited financial statements
 - Comprehensive annual financial report
 - Executive budget, accounting and/or payroll reports
 - Amount of Federal costs included in direct cost base.
 - Organizational information
 - Organizational chart
 - Functional statements noting the duties and responsibilities of all units
 - Certificate of Indirect Costs
 - Must be signed by an official who is authorized to legally bind the non-Federal entity. § 200.415

Appendix VII: State/Local Government Indirect Cost Proposals

- Types of Indirect Cost Rates
 - Predetermined Rate/Agreement
 - Usually established for 2 to 4 years
 - Not subject to adjustment
 - Fixed with Carry-Forward Agreement
 - Established for 1 year
 - Requires reconciliation to actual
 - Difference carried forward to subsequent year

Appendix VII: State/Local Government Indirect Cost Proposals

- Types of Indirect Cost Rates
 - Provisional
 - Temporary rate
 - Requires annual reconciliation to actual
 - Adjustments must be made to applicable period for each Federal award
 - Very difficult to administer
 - Final
 - Based on actual cost of a period
 - Used to close out provisional rates

Appendix VII: State/Local Government Indirect Cost Proposals

- Types of Indirect Cost Rates
 - Flat 10% MTDC Rate §200.414
 - any non-Federal entity that has never received a **negotiated** indirect cost rate (and that has less than \$35M in federal funding may elect to charge a de minimis rate of) 10% of modified total direct costs (MTDC) which may be used indefinitely.
 - Interagency Services (10%)
 - Department does not have an approved rate
 - Only on salary and wage costs
 - U.S. Department of Education
 - Unrestricted – In accordance with 2 CFR Part 200
 - Restricted – Excludes following
 - Executive officer and their immediate office
 - Staff reporting directly to Executive Officer
 - Facility related costs

Appendix VII: State/Local Government Indirect Cost Proposals

- Rate Development Methods
 - Simplified – Single Rate for Department
 - Agency-wide costs must benefit all programs
 - Division costs must be consistent
 - Usually a single indirect cost rate for the agency
 - Multiple allocation base – Multiple rates
 - Agency indirect cost benefit varies
 - Division indirect cost varies
 - Different allocation base for each cost pool
 - Cost pools only allocated to benefiting units
 - Preparation of an indirect cost allocation plan
 - Multiple rates
 - Special indirect cost rates

Appendix VII: State/Local Government Indirect Cost Proposals

- Other Policies for disclosure in ICRP.
 - Fringe benefit rates
 - Billed services

Appendix VII: State/Local Government Indirect Cost Proposals

- Negotiation & Approval
 - Timely basis
 - Review within six months of receipt
 - Issuance of an indirect cost rate agreement
 - Applicable to all Federal programs
- Expired Indirect Cost Rate
 - New DHHS interpretation – continue with previous rate
 - Consequence of them being short staffed and behind schedule
 - They will convey verbally to other federal agencies if they are cognizant
 - If your cognizant is not DHHS, this interpretation may not hold.

2 CFR Part 200: Conclusion

- Not black and white document, even in its new form.
- The FAQ is an integral document to understanding 2 CFR 200.
- Open to different interpretations
 - Federal agency
 - Negotiator
 - Auditor
- Questions