



50.20 Cost Allocation and Indirect Cost Recoveries

50.20.10

January 1, 2015

The purpose of these policies

This section addresses billed and allocated central service cost recoveries related to federal assistance awards administered by state agencies. It also establishes state accounting and reporting policies regarding indirect cost recoveries in interagency situations.

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Authority for these policies

This section is issued, as revised, pursuant to the authority granted to the Director of Financial Management to "... adopt and periodically update an accounting procedures manual" [RCW 43.88.160(1)].

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Applicability

This part is applicable and binding on all agencies of the state of Washington administering or expending federal assistance, unless otherwise exempted by federal law or appropriate federal authority, and on all agencies involved in interagency situations. The Budget and Accounting Act (RCW 43.88.020) defines the term "Agency" to mean "Every state office, officer, each institution, whether educational, correctional, or other, and every department, division, board, and commission, except as otherwise provided..."

Agencies may request a waiver from complying with specific requirements of this chapter. Refer to Subsection 1.10.40 for information on how to request a waiver.

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About federal costs and cost allocation principles

50.20.50.a

The United States Office of Management and Budget (OMB) has established uniform principles for determining the allowability of costs incurred by nonfederal entities expending federal awards. In addition, these principles provide requirements for the development and submission of cost allocation plans and indirect rate cost proposals. Many state agencies perform functions and activities that are associated with federal assistance programs or provide central service support to federal assistance programs. As such, they are subject to provisions of the cost principles applicable to their activities.

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Over the years, the federal OMB issued several circulars related to cost allocation. These circulars are effective for awards issued **before December 26, 2014**:

- A-21 Cost Principles for Educational Institutions
- A-87 Cost Principles for State, Local and Indian Tribal Governments
- A-122 Cost Principles for Non-Profit Organizations

Refer to the complete circulars listed above at:

http://www.whitehouse.gov/omb/Circulars_default.

In 2013, **effective December 26, 2014**, the OMB issued the Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance) to clarify and streamline the federal guidance. The Uniform Guidance supersedes OMB Circulars: A-21, A-87, and A-122.

The Uniform Guidance (effective December 26, 2014) establishes principles and standards related to cost allocation and indirect costs:

1. Indirect (F&A) cost identification and assignment, and rate determination for institutions of higher education;
2. Indirect (F&A) cost identification and assignment, and rate determination for nonprofit organizations;
3. State/local government and Indian tribe-wide central service cost allocation plans;
4. Public assistance cost allocation plans; and
5. State and local government and Indian tribe indirect cost proposals.

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Washington's Statewide Central Services Cost Allocation Plan (SWCAP) is used to identify and assign central service costs

Most governmental units provide certain services such as legal services, information technology services, and motor transportation to operating agencies on a centralized basis. Since federally supported awards are performed within the individual operating agencies, a process is necessary to identify these central service costs and assign them to benefited activities on a reasonable and consistent basis. The federally reviewed and approved, statewide central service cost allocation plan provides that process.

Two basic methods are used in the plan to assign appropriate costs of centralized services to operating agencies or their programs:

- **Billed Central Services** where allowable costs are billed to benefited agencies and/or programs on an individual fee for service or similar basis. Self-insurance and fringe benefit activities that bill customers for services or benefits provided are also considered central service activities.
- **Allocated Central Services** where services that benefit operating agencies and/or programs are not billed on a fee for service or similar basis but allowable costs are allocated to benefited agencies on some reasonable basis.

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Responsibilities of the Office of Financial Management

The Accounting Division of OFM is responsible to prepare, submit, and negotiate the annual statewide central services cost allocation plan (SWCAP). One part of the SWCAP justifies and reconciles the activities of the billed state central services (internal service, self-insurance and fringe benefit). A second part allocates the allowable costs of other state central services benefiting agencies expending federal awards.

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Responsibilities of central, billed internal service activities

State of Washington central, billed internal service activities have the following responsibilities:

1. Understand and adhere to the requirements of the Uniform Guidance.
2. Ensure that the following information is made available for inclusion in the state plan:
 - A current narrative description of the service;
 - A balance sheet;
 - A statement of revenue and expense with revenues broken out by source, e.g., regular billings, interest earned, etc.;
 - A listing of all non-operating transfers into and out of the account;
 - A description of the procedures (methodology) used to charge service costs to users including how billing rates are determined;
 - A schedule of current rates; and
 - A schedule comparing total revenues (including imputed revenues) generated by the service to the allowable costs of the service with an explanation of how variances will be handled. Revenues must include all revenues generated. If some users were not billed or not billed the full rate for the service, a schedule showing the full imputed revenues associated with these users must be provided. Expenses must be broken out by object categories.

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Responsibilities of central, self-insurance fund activities

State of Washington central, self-insurance fund activities have the following responsibilities:

1. Understand and adhere to the requirements of the Uniform Guidance.
2. Ensure that the following information is made available for inclusion in the state central services plan:
 - A balance sheet;
 - A statement of revenue and expense including a summary of summary of billings and claims paid by;
 - A listing of all non-operating transfers into and out of the account;
 - A narrative description of the types of risks covered;
 - An explanation of how the level of contributions are determined, including a copy of the actuarial report (with the assumptions used) if the contributions are determined on an actuarial basis;
 - A description of the procedures used to charge or allocate contributions to benefited activities; and
 - An identification and explanation of reserve levels maintained in excess of claims [1] submitted and adjudicated but not paid, [2] submitted but not adjudicated, and [3] incurred but not submitted.

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Responsibilities of central, fringe benefits activities

State of Washington central, fringe benefits activities, including pension and post-retirement health insurance plans, have the following responsibilities:

1. Understand and adhere to the requirements of the Uniform Guidance.
2. Ensure that the following information is made available for inclusion in the state central services plan:
 - Description of fringe benefits provided to covered employees and the overall annual cost of each type of benefit;
 - Current fringe benefit policies;
 - Procedures used to charge or allocate the costs of benefits to benefited activities; and
 - For pension or post-retirement health insurance plans [1] the government's unit funding policies, e.g., legislative bills, trust agreements, or state-mandated contribution rules, if different from actuarially determined rates; [2] the pension plan's costs accrued for the year; [3] the amount funded and dates of funding; [4] a copy of the current actuarial report (including the actuarial assumptions); [5] the plan trustee's report; and [6] a schedule showing the value of interest costs associated with late funding.

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Responsibilities of agencies administering or expending federal awards

State of Washington agencies that administer or expend federal awards are responsible to:

1. Comply with the applicable Uniform Guidance related to charging or allocating agency indirect costs.
2. Unless prohibited by federal or state laws or regulations or formal funding limitations, include the fixed cost allocation from the approved SWCAP in their agency indirect cost/cost allocation pool.

Any indirect costs or cost allocation amounts recovered, as a result of a SWCAP cost allocation amount being included in an agency's indirect rate or cost allocation plan, are to be deposited as a recovery in the state General Fund (Account 001) utilizing Revenue Source code 0448.

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Indirect costs in interagency situations

50.20.85.a

RCW 39.34.130 states that: "...the full costs of a state agency incurred in providing services or furnishing materials to or for another agency under Chapter 39.34 RCW or any other statute shall be charged to the agency contracting for such services or materials and shall be repaid and credited to the fund or appropriation against which the expenditure originally was charged." For these purposes, full costs generally include direct and indirect costs.

50.20.85.b

The nature of interagency activity varies greatly ranging from providing a service or product with established indirect costs components to the simple sharing of usage, and/or rental, costs for a common piece of equipment. As such, parties to interagency agreements should include specific language in the text of their agreements to determine and define allowable indirect costs.