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

Presented by:
MGT of America, Inc.
Bret Schlyer, Director
bschlyer@mgtamer.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/cofar/
    - Subpart E - Cost Principles
    - Appendix V – State/Local Govt Central Service Cost Allocation Plans
    - Appendix VI - Public Assistance Cost Allocation Plans
    - Appendix VII – States & Local Government Indirect Cost Proposals
  - ASMB C-10 “Implementation Guide for OMB Circular A-87
Federal Cost Principles (formerly OMB Circular A-87)

- 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: Policy Guides

- Application of sound management practices
- Responsible for administering federal programs in accordance with applicable policies and requirements.
- Proper and efficient program administration
- Accounting practices must be consistent with these cost principles, support the accumulation of costs, and provide for adequate documentation to support costs charged to the Federal award.
Subpart E: § 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.
- 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
- 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 fluctuations
  - 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 disproportionally 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
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
  - 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 trued 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: Interest §200.449

- Bona fide third party external to governmental unit
- Building completed after October 1, 1980
- Equipment after September 1, 1995
Subpart E: Proposal Costs §200.460

- Costs are allowable
- Normally to be treated as a government-wide or department indirect cost
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 will not be reimbursed
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 Circular
    - 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
  - 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” adjustments.
- Record retention same as Subpart D of 2 CFR Part 200.
Appendix VI: Public Assistance Cost Allocation Plans

- Detailed requirements presented in Subpart E of 45 CFR part 95
- Only applicable to public assistance agencies
- Public assistance programs – TANF, Medicaid, Food Stamps, Child Support Enforcement
- Narrative methodology approved by USDHHS
- Processed at least quarterly
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 deminimis 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 OMB Circular A-87
  - 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

- Negotiation & Approval
  - Timely basis
  - Review within six months of receipt
  - Issuance of an indirect cost rate agreement
  - Applicable to all Federal programs
Appendix VII: State/Local Government Indirect Cost Proposals

- Other Policies
  - Fringe benefit rates
  - Billed services
2 CFR Part 200: Conclusion

- Not black and white document, even in its new form.
- Open to different interpretations
  - Federal agency
  - Negotiator
  - Auditor
- Questions