Cost Allocation and Federal Compliance

Fiscal Training
March 20th, 2008
10:00 a.m. – 4:00 p.m.
Why is Cost Allocation Important?

What are the Federal requirements governing the funding received?

What are allowable or unallowed costs?

What is the difference between Direct and Indirect Costs?

What is a Cost Allocation Plan?

How do I calculate indirect cost rates?

How does this impact my organization?
Learning Objectives

- Basic Terminology
- OMB Circular A-110 (2 CFR Part 215)
- Cost Allocation Overview
- OMB Circular A-122 (2 CFR Part 230)
- Basic Guidelines for Costs
- Direct and Indirect Costs
- Indirect Cost Rate Proposal
- Cost Allocation Plan/ICRP Process
- Reporting of Time and Effort of Staff
- Questions and Answers
What is a “Subrecipient”?  
Subrecipient means the legal entity to which a “subaward” is made and which is accountable to the recipient for the use of the funds provided.

What is a “Subaward”?  
Subaward means an award of financial assistance in the form of money, or property in lieu of money, made under an award by a recipient (i.e., Florida Department of Children and Families) to an eligible subrecipient (FCADV) or by a subrecipient to a lower tier subrecipient (nonprofit organization). (2 CFR Part 215 (OMB Circular A-110))
What is “OMB Circular A-110”?  
- Provides uniform administrative requirements for grants and agreements with non-profit organizations  
- The provisions of the Circular apply to subrecipients performing work under awards if such subrecipients are non-profit organizations (2 CFR §215.5)
OMB Circular A-110

What does OMB Circular A-110 require?

- Financial management systems that provide
  - Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program
  - Records that identify adequately the source and application of funds for federally-sponsored activities
    - Contain information pertaining to Federal awards
    - Authorizations
    - Obligations
    - Unobligated balances
    - Assets
    - Outlays
    - Income
    - Interest
OMB Circular A-110

- Financial management systems that provide
  - Effective control over and accountability for all funds, property and other assets
  - Comparison of outlays with budgetary amounts for each award
  - Cash management written procedures
  - Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles (OMB Circular A-122)
  - Accounting records including cost accounting records that are supported by source documentation
Cost Allocation is predicated on the premise that organizations maintain an adequate accounting system and accounting records to document costs and support claims (2 CFR §215.21(b)(7))
Commingling of Funds

- The accounting systems of all recipients and subrecipients must ensure that Federal funds for a particular award are not commingled with funds from other Federal awards or other sources. Each award must be accounted for separately. Recipients and subrecipients are prohibited from commingling funds on either a program-by-program or project-by-project basis.

- Federal funds specifically budgeted and/or received for one project may not be used to support another. Where a recipient's or subrecipient's accounting system cannot comply with this requirement, the recipient or subrecipient shall establish a system to provide adequate fund accountability for each project it has been awarded.

*Part II, Chapter 3, Financial Guide, U.S. Department of Justice, Office of Justice Programs (OJP)*
Cost Allocation Overview

● What is “Cost Allocation”?  
  ● Cost Allocation is a Process to Determine the “Total Cost” of a “Cost Objective”  
  ● Achieved By Distributing or Apportioning Costs to a Benefiting “Cost Objective”…  
  ● Using Statistical Data or Metrics that Measure the Usage of a Service or the Relative Benefit Received
What is a “Cost Objective”? A “Cost Objective” is a particular award, contract, grant, project, service, or other activity of an organization for which cost data are desired and for which provision is made to accumulate and measure the costs.
What is the “Total Cost” of a Cost Objective?

“Total Cost” is composed of the sum of the allowable direct costs and allocable indirect costs, less any applicable credits.
Total Costs = Direct + Indirect

- **Direct Costs**
  Can be identified specifically with a particular final cost objective (i.e., a particular award, service or direct activity)

- **Indirect Costs**
  Incurred for common or joint objectives and cannot be readily identified with a particular final cost objective
Allocating Indirect Costs

- **Allocation Bases**: The methodology or statistical measure by which *Indirect Costs* are distributed to other benefiting services and/or cost objectives

- Examples May Include:
  - Number of Active Employees;
  - Number of Transactions Processed;
  - Square Footage Occupied;
  - Salaries and Wages of Units Supervised;
  - Direct Assignment
Cost Allocation Overview

- **Simple Example:**
  - Centrally Located Copier
    - “Cost to Operate” includes:
      - Lease Payments
      - Repairs & Maintenance
      - Toner
      - Paper
      - Supplies, etc.
    - “Direct Costs”
Copier Example (continued):

- What about electricity used, the space it occupies, the office manager’s time paying related bills, ordering paper & supplies, arranging deliveries and coordinating servicing, etc.?

- “Indirect Costs”
Cost Allocation Overview

- Copier Example (continued):
  - Three Divisions Utilize
    - Division A – 12 Staff
    - Division B – 6 Staff
    - Division C – 22 Staff
Cost Allocation Overview

Copier Example (continued):

- How Do We Apportion or Allocate These “Costs” to the Three Divisions?
  - Equal Distribution (i.e., 1/3rd Each)
  - “Good”
  - Number of Staff Using the Copier
    - A – 30%, B – 15%, C – 55%
    - “Better”
  - User Codes
    - Measures Actual Usage of the Copier
    - “Best”
United States Office of Management and Budget (OMB) Circular A-122 – Purpose:

Establish principles for determining costs of grants, contracts and other agreements with non-profit organizations. (§230.5 of 2 CFR Part 230)
Basic Principle

The principles are designed to provide that the Federal Government bear its *fair share* of costs except where restricted or prohibited by law. (*emphasis added*)

(§230.15 of 2 CFR Part 230)
Basic Guidelines for Costs

To Be Claimed Under Federal Awards, Costs Must Be:

- “Allowable”
- “Reasonable”
- “ Allocable”
Allowable Costs

To Be **Allowable**, Costs Must Meet the Following General Criteria:

- Be “reasonable” for the performance of the award
- Be “allocable” to the award under OMB A-122 cost principles
- **Conform** to any limitations or exclusions imposed by OMB A-122 cost principles or in the award as to the types or amount of cost items
- Be **consistent with policies and procedures** that apply uniformly to both federally-financed and other activities of the organization
- Be accorded **consistent treatment**
- Be determined in accordance with generally accepted accounting principles (GAAP)
- **Not** be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program
- Be adequately **documented**
Reasonable Costs

A Cost is **Reasonable** if it Meets the Following General Criteria:

- Pass **prudent person** test – it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time of the decision to incur the costs
- Recognized as **ordinary and necessary** for the operation of the organization or the performance of the award
- Constitutes **sound business practice**, including arms length bargaining, and conforms to the restraints and requirements of Federal and State laws and regulations, and terms and conditions of the award
- **Prudence** exercised in the circumstances considering responsibilities to the organization, its members, employees, clients, public, and Federal Government
- Does **not significantly deviate** from the organization’s **established practices**
Allocable Costs

To be Allocable, Costs Must Meet the Following General Criteria:

- A cost is allocable in accordance with the relative benefits received
- Treated consistently with other costs incurred for the same purpose in like circumstances and
  - Incurred specifically for the award (direct relationship), or
  - Benefits both the award and other work and can be reasonably distributed in proportion to the benefits received, or
  - Is necessary to the overall operation of the organization and a direct relationship to any particular cost objective cannot be shown
- Costs allocable to a particular award or cost objective may not be “shifted” to other Federal awards to overcome funding deficiencies, or to avoid restrictions by law or by terms of the award
Direct Costs

- Direct Costs are those costs that can be identified specifically with a particular final cost objective (i.e., a particular award, project, service, or other direct activity of an organization).

- Costs identified specifically with awards are direct costs of the awards and are to be assigned directly to the award.

- Costs identified specifically with other final cost objectives of the organization are direct costs of those cost objectives and are not to be assigned to other awards directly or indirectly.
Indirect Costs

- **Indirect Costs** are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective.

- After direct costs have been determined and assigned directly to awards or other work as appropriate, **indirect costs are those remaining to be allocated** to benefiting cost objectives.

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

Typical examples of indirect costs for many non-profit organizations may include

- Depreciation or use allowances on buildings and equipment

- Costs of operating and maintaining facilities

- General administration and general expenses, such as the salaries and expenses of executive officers, personnel administration, and accounting
Indirect Costs shall be classified within two broad categories: “Facilities” and “Administration”

- “Facilities” includes
  - depreciation and use allowances on buildings, equipment and capital improvements
  - interest on debt associated with certain buildings, equipment and capital improvements, and
  - operations and maintenance expenses incurred for the administration, operation, maintenance, preservation, and protection of the organization’s physical plant
Indirect Costs

- **Operations and maintenance** expenses include:
  - Janitorial and utility services
  - Repairs and ordinary or normal alterations of buildings, furniture and equipment
  - Care of grounds
  - Maintenance and operation of buildings and other facilities
  - Security
  - Cross allocations from other pools, as applicable

- Hurricane and disaster preparedness
- Environmental safety
- Property, liability and other insurance relating to property
- Space and capital leasing
- Facility planning and management
- Central receiving
Indirect Costs

- **“Administration”** includes
  - General administration and general expenses that have been incurred for the overall general executive and administrative offices of the organization and other expenses of a general nature which do not relate solely to any major function of the organization.

- Examples of this category include:
  - Director’s office
  - Office of finance
  - Business services
  - Budget and planning
  - Personnel
  - Safety and risk management
  - General counsel
  - Management information systems
  - Library costs and
  - All other types of expenditures not listed specifically under one of the subcategories of “Facilities” (including cross allocations from other pools, as applicable).
Indirect Costs

- Special care should be exercised in developing the “Administration” cost pool to ensure that costs incurred for the same purposes in like circumstances are treated consistently as either direct or indirect costs.

- Organizations receiving more than $10 million in Federal funding of direct costs in a fiscal year must breakout indirect costs between “Facilities” and “Administration”.
What is a Cost Allocation Plan?

● A **Cost Allocation Plan** is a set of documents that relate to a process where **Indirect Costs** are allocated using a set of allocation methods to benefiting Cost Objectives.

● The Purposes of a Cost Allocation Plan are as follows:
  - They are often the only way to determine the total cost of operating programs.
  - They allow an organization to ensure that it is recovering all allowable costs incurred by the organization.
  - They can provide valuable management data to an organization regarding funding levels and time spent on activities (when time and effort reporting is also employed).
Indirect Cost Rate Proposal

- **Indirect Cost Rate Proposal (ICRP):** the documentation prepared by an organization to substantiate its claim for the reimbursement of indirect costs. The proposal is the basis for establishing an **indirect cost rate** agreement.
Indirect Cost Rate

- **An Indirect Cost Rate** is a Percentage calculated as follows:

  \[
  \text{Indirect Cost Rate (\%)} = \frac{\text{Total Indirect Costs ($)}}{\text{Direct Cost Base ($)}}
  \]

- **The Direct Cost Base** is used to distribute Indirect Costs to individual Federal awards
  - An indirect cost rate must be applied to a direct cost base in order to determine the amount of indirect cost
**Indirect Cost Rate**

**Simple Example:**
Organization XYZ administers three (3) grants (A, B & C).
- Organization XYZ Indirect Costs = $100,000
- Organization XYZ Direct Salaries & Wages = $1,000,000

\[
\text{Indirect Cost Rate (\%)} = \frac{\text{Total Indirect Costs (\$)}}{\text{Direct Cost Base (\$)}}
\]

- Indirect Rate = 10% = \frac{$100,000}{\$1,000,000}$
Indirect Cost Rate

Simple Example (continued):

- Grant A has Direct Salaries & Wages of $40,000
  - Indirect Cost Recovery = $4,000 (10% x $40,000)

- Grant B has Direct Salaries & Wages of $65,000
  - Indirect Cost Recovery = $6,500 (10% x $65,000)

- Grant C has Direct Salaries & Wages of $25,000
  - Indirect Cost Recovery = $2,500 (10% x $25,000)
Indirect Rate Methodologies

There are Two (2) Basic Methods for Calculating Indirect Cost Rates:

- Simplified Allocation Method
- Multiple Allocation Base Method
The **Simplified Method** may be used where each of an organization’s major functions benefit from its Indirect Costs to approximately the same degree.

- Divide the Total Allowable Indirect Costs by an Equitable Direct Cost Base (e.g. Total Direct Costs, excluding capital outlay and other distorting items, Direct Salaries & Wages, or Modified Total Direct Costs (MTDC)).

\[
\text{Indirect Cost Rate (\%)} = \frac{\text{Total Indirect Costs}}{\text{Direct Cost Base}}
\]
Multiple Base Method

- The Multiple Base Method is more appropriate where each of an organization’s major functions benefit from its Indirect Costs in varying degrees
  - Classify Indirect Costs into functional cost groupings (“Cost Pools”) which benefit functions in significantly different proportions
  - Select appropriate basis for distribution of each classified pool of Indirect Costs based on relative benefits provided
  - Distribute each classified pool to benefiting functions
  - Calculate an Indirect Cost Rate for each function by relating the Total Indirect Costs allocated to that function to that function’s Direct Cost Base
Multiple Base Method

Allocation bases

- In selecting an allocation method or base, consideration should be given to:
  - The one best suited for assigning the pool of costs to cost objectives in accordance with benefits derived
  - A traceable cause and effect relationship exists between the cost pool being allocated and the cost objectives
  - Logic and reason, where neither the cause nor the effect of the relationship is determinable
Multiple Base Method

Allocation bases

- When a cost grouping benefits a single function, the costs should be allocated directly to the benefiting function.

- Cost groupings of a general nature should be allocated using a base which produces results that are equitable to both the Federal Government and the organization.

- Unless it can be demonstrated that a different base would result in a more equitable allocation of costs (or a more readily available base would not increase the costs charged to awards), costs should be allocated in accordance with the methodologies described in OMB Circular A-122 (subparagraph D.3.c. of Appendix A to 2 CFR Part 230).
Multiple Base Method

Depreciation and use allowances
- Single function – direct assignment
- More than one function – usable square feet, excluding common areas
- Jointly by more than one function – full-time equivalent (FTE) basis or salaries and wages of benefiting functions; or organization-wide FTEs or salaries and wages of the benefiting functions
- Certain Capital Improvements to Land – FTEs and then salaries and wages to applicable functions
Multiple Base Method

Interest

- Allocated in the same manner as the depreciation or use allowances on the buildings, equipment and capital equipments to which the interest relates

Operation and Maintenance

- Allocated in the same manner as the depreciation or use allowances
Multiple Base Method

General Administration and General Expenses

- Allocated to benefiting functions based on modified total direct costs (MTDC)

- MTDC consists of all salaries and wages, fringe benefits, materials and supplies, services, travel, and subgrants and subcontracts up to the first $25,000 of each subgrant or subcontract (regardless of the period covered)

  - Equipment, capital expenditures, charges for patient care, rental costs, and the portion of subgrants and subcontracts in excess of $25,000 shall be excluded from the MDTC
Multiple Base Method

Order of Distribution

- Allocate depreciation and use allowances, interest, operation and maintenance, and general administration and general expenses in that order to remaining indirect cost categories and major functions of the organization.
- Order of allocation not applicable if cross allocation of costs between two or more indirect cost categories is used.
Multiple Base Method

**Application of Indirect Cost Rate**

- Aggregate separate groupings of indirect costs by function and treat as a common pool for that function
- Distribute to individual awards comprising the function using a single indirect cost rate
  - Individual rate components required for “Facilities” and “Administration” (> $10 million Federal funding direct costs)
- Distribute on the basis of MTDC of the applicable awards within each major function
Direct Allocation Method

Treat all costs as “Direct Costs” except General Administration and General Expenses

- Three basic categories:
  - General administration and general expenses
  - Fundraising
  - Other Direct Functions

- Prorate joint costs individually as “Direct Costs” to each category and to each award or other activity using an appropriate base for the cost being prorated
  - Relative benefits received
  - Reasonable criteria
  - Supported by current data

- Indirect Costs consist exclusively of general administration and general expenses
  - Compute indirect cost rate using Simplified Allocation Method
Selecting Rate Methodology

- The following should be considered in selecting a Rate Methodology:
  - Amount of Federal Funding
  - Size of the Organization (major functions)
  - Maximizing Indirect Cost Recoveries
  - Service Variances
  - Availability of Allocation Statistics
  - Types of Programs
  - Cognizant Federal Agency
Special Indirect Cost Rates

- Special Indirect Cost Rates may be required for a particular segment of work based on:
  - The physical location of the work
  - The level of administrative support required
  - The nature of the facilities or other resources employed
  - The scientific disciplines or technical skills involved
  - The organizational arrangements involved
  - Or a combination of the above
OMB Circular A-122 Defines Four (4) Types of Indirect Cost Rates:

- **Provisional Rate** is a temporary rate, agreed to in advance, based on anticipated future costs. It is subject to retroactive adjustment at a future date after costs are known (pending a Final Rate).

- **Final Rate** is established after costs are known. It adjusts the Provisional Rate but is administratively burdensome.
  - Underpayments are subject to availability of funds
  - Overpayments must be credited or returned
  - Not subject to adjustment

- **Fixed Rate** is agreed to in advance but is not retroactively adjusted.
  - Difference between estimated and actual costs is “carried forward” as an adjustment to the rate computation of a subsequent period

- **Predetermined Rate** is agreed to in advance but is generally not subject to adjustment.
  - Intended to be permanent
Cost Allocation Plan/ICRP Process

- **Information Requirements:**
  - Organization Chart
  - Chart of Accounts
  - Expenditure Detail
  - Payroll Data
  - Direct Charges
  - Interviews with Staffs
  - Statistical Data/Metrics
  - Grants Inventory (Schedule of Expenditure of Federal Awards)
Eight (8) Broad Steps to Preparing an Indirect Cost Rate Proposal:

1. Review OMB Circular A-122
2. Organization Review
3. Program Identification
4. Prepare a Cost Policy Statement
5. Review and Reconcile Financial Statements
6. Prepare Indirect Cost Rate Proposal Detail
7. Prepare an Indirect Cost Rate Calculation Worksheet and Determine Type of Rate(s)
8. Obtain Cognizant Agency Approval
#1 Review OMB Circular A-122

- Obtain OMB Circular A-122
- Review Attachment C to confirm organization is subject to the provisions of the Circular
- Review Attachment A to gain basic considerations, direct costs, indirect costs, allocation of indirect costs, and determination of indirect cost rates
- Review Attachment B to identify and document cost items that are relevant to the organization and determine proper treatment per the Circular
#2 Organization Review

- Review and/or prepare an organization chart explaining the various services and/or functions of each unit within the organization.
- Determine which units are indirect (administrative) functions of the organization and services that are allowable and allocable to Federal awards under the Circular.
- Prepare a narrative statement of the duties and/or responsibilities of all units to be submitted with the organization chart in the indirect cost rate proposal.
#3 Program Identification

- Review the organization’s Federal and Non-Federal outlays to determine the programs being funded

- Prepare a listing of directly awarded grants and contracts by federal agencies to include:
  - Total dollar amount
  - Period of performance
  - Restrictions or references to statutes or regulations
  - Indirect cost limitations (if any)
#4 Prepare a Cost Policy

- Review or prepare an organization Cost Policy Statement to include:
  - The organization’s general accounting principles (i.e., GAAP, cash or accrual basis)
  - Description of the organization’s accounting system(s) and chart of accounts
  - Description of the cost allocation methodology
  - Determination of cost pools and distribution bases
Select and describe cost allocation methodology

- Simplified Allocation Method
- Multiple Allocation Base Method
- Direct Allocation Method
#5 Reconcile Financial Statements

- Obtain audited financial statements
- Identify Direct Costs from the listing of awarded grants and contracts prepared in #3
  - Actual dollars spent on various programs and incurred specifically for a particular program
- Assign Direct Costs to federal awards and other activities as appropriate
- Identify Indirect Costs that should be allocated and charged to federal awards using an indirect cost rate
  - Incurred for common or joint purposes
  - Benefit more than one cost objective
  - Cannot be readily identified with a particular grant, contract or other activity of the organization
#5 Reconcile Financial Statements

- Reconcile total costs, both direct and indirect costs, to the total costs of the financial statement
  - Ensure costs reconcile by cost element (i.e., object level)
- Identify unallowable and extraneous costs that should be excluded from the proposal, and those that should be allocated their share of indirect costs
- Eliminate unallowable and unallocable costs from indirect cost pool before the pool is allocated to each direct program
  - Unallowable functions and non-reimbursable activities should be treated as direct functions and receive their proper distribution of indirect costs
The following are examples of unallowable costs that should not be included in the indirect cost pool:

- Equipment and other capital expenditures (15)
- Alcoholic beverages (2)
- Bad debts (3)
- Contingency provisions (8)
- Contributions (9)
- Legal expenses for prosecution of claims against the federal government (10)
- Entertainment costs (14)
- Fines and penalties (16)
- Goods and services for personal use (18)
- Fund raising (23)
- Lobbying (25)
- Losses on other awards (26)
- Organization costs (31)
- Selling and marketing (48)

Note: The numbers represent the section numbers of each item in OMB Circular A-122 Attachment B
The following are examples of unallowable functions that should not be included in the indirect cost pool but must be treated as direct costs and allocated an equitable share of indirect costs:

- Maintenance of membership rolls, subscriptions, publications, or related functions
- Providing services and information to members, legislative or administrative bodies, or the public.
- Meetings and conferences except those held to conduct the general administration of the organization.
- Maintenance, protection, and investment of special funds not used in operation of the organization.
- Administration of group benefits on behalf of members or clients, including life and hospital insurance, annuity or retirements plans, financial aid, etc.
Prepare a reconciliation worksheet between the indirect cost rate proposal and the financial statements showing each reclassification and adjustment to the financial statements (unallowable and unallocable costs)
#6 Prepare Indirect Cost Rate Proposal

- Using the worksheet prepared in #5, list each direct activity (federal grants, non-federal grants, fund raising, etc.) of the organization in separate columns
  - Ensure all directly awarded grants and contracts identified in #3 are presented in separate columns
  - A separate column should be inserted for indirect costs
#6 Prepare Indirect Cost Rate Proposal

- Prepare a personnel cost allocation cost worksheet that shows the estimated/actual salary costs for each **federal and non-federal cost objective**.

- The percentage of time per position is spread under the appropriate cost objective, ensuring that 100 percent is allocated for each position.
Salaries and Wages Documentation

- **Payroll** - Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization (subparagraph 8.m.(1) of Appendix B to 2 CFR Part 230)

- **Personnel Activity Reports (PARs)** – The distribution of salaries and wages to awards must be supported by personnel activity reports (subparagraph 8.m.(1) of Appendix B to 2 CFR Part 230)
Personnel Activity Reports (PARs)

- PARs reflecting the distribution of activity of each employee must be maintained for all staff members (professional and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards.

- PARs must also be maintained for other employees whose work involves two or more functions or activities in order to support the allocation of indirect costs.
  - e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function
Personnel Activity Reports (PARs)

PARs maintained by non-profit organizations must:

- Reflect an after-the-fact determination of the actual activity of each employee
  - Budget estimates do not qualify as support for charges to awards

- Account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization

- Be signed by the individual employee that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the report
  - May be signed by a responsible supervisory official having first hand knowledge of the activities performed by the employee

- Be prepared at least monthly and must coincide with one or more pay periods
### PERSONNEL ACTIVITY REPORT

| PROGRAM | ACTIVITY                  | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 | TOTAL |
|---------|---------------------------|---|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| Gen & Admin | Holiday                  |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Gen & Admin | Leave - Vacation          |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Gen & Admin | Leave - Personal/Sick     |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Gen & Admin | Leave - Bereavement       |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Gen & Admin | Administration           |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| TANF       | Case Management           |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| TANF       | Legal Advocacy            |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| TANF       | Social Services           |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| TANF       | Crisis Intervention       |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| DVF/FVS    | Information & Referral    |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| DVF/FVS    | Counseling               |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| DVF/FVS    | Case Management           |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| DVF/FVS    | Emergency Shelter         |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| DVF/FVS    | 24-hour Hotline           |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| DVF/FVS    | Safety Plan Training      |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| DVF/FVS    | Community Education       |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| VAWA/STOP  | Staff/Prof. Training      |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| VAWA/STOP  | Case Management           |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| VAWA/STOP  | Counseling               |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| VAWA/STOP  | Counseling               |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Sexual Abuse | Counseling              |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Sexual Abuse | Counseling              |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Mental Health | Counseling          |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Other      | Thrift Store             |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Other      | Fund Raising             |   |   |   |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |

**Example: This report reflects a reasonable estimate of the actual after-the-fact activities performed during the period covered by this report.**

**Employee Signature:** ___________________________ **Date:** __________

**Supervisor Signature:** ___________________________ **Date:** __________
Prepare a fringe benefit cost allocation worksheet with a statement describing the organization’s fringe benefit policy

- Show estimated/actual fringe benefit costs related to indirect salaries
- Include documented fringe benefit policies to support charges (directly and indirectly) to federal awards
#6 Prepare Indirect Cost Rate Proposal

- Perform cost allocations in accordance with the selected allocation methodology documented in #4
  - Simplified Allocation Method
  - Multiple Allocation Base Method
  - Direct Allocation Method
#6 Prepare Indirect Cost Rate Proposal

● **Certificate of Indirect Cost**

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal [identify date] to establish billing or final indirect costs rates for [identify period covered by rate] are allowable in accordance with the requirements of the Federal award(s) to which they apply and OMB Circular A-122, “Cost Principles for Non-Profit Organizations.” Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal awards on the basis of a beneficial or casual relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government will be notified of any accounting changes that would affect the indirect cost rate.

I declare that the foregoing is true and correct.
#6 Prepare Indirect Cost Rate Proposal

- **Lobbying Cost Certificate (Required)**

  LOBBYING COST CERTIFICATE

  I hereby certify that the (name of organization) has complied with the requirements and standards on lobbying costs in OMB Circular A-122 for the fiscal year ended (fiscal year covered by indirect cost proposal)

- **The above certification is a requirement of OMB A-122 and indirect cost rate proposals will not be processed without this certificate**
#7 Prepare Indirect Cost Rate(s)

- Determine the direct cost base that results in an equitable distribution of indirect costs
  - Salaries & Wages (SW)
  - Salaries & Wages plus Fringe Benefits (SW + FB)
  - Total Direct Costs (TDC) – excluding capital expenditures and other distorting items
  - Modified Total Direct Cost (MTDC) – should be used if the Multiple Base Allocation Method is selected
#7 Prepare Indirect Cost Rate(s)

- Prepare an indirect cost rate calculation worksheet using the worksheet developed in #6
- Determine the type of indirect cost rate to be negotiated
  - Provisional rate (which will be converted to a Final rate when actual costs are known)
  - Predetermined rate
  - Fixed rate with carry forward provisions
- Assess need for a Special Indirect Cost Rate
#8 Obtain Cognizant Agency Approval

- Contact the federal agency that provides the most funds (Cognizant Agency) regarding the procedures for submission, review and approval of indirect cost rates
- Assemble indirect cost rate proposal package including all supporting schedules and required policy statements
- Present the proposal to the appropriate Cognizant Agency for negotiation and approval
SAMPLE INDIRECT COST PROPOSAL FORM FOR NONPROFIT ORGANIZATIONS

ADAPTED FROM THE U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
PROGRAM SUPPORT CENTER
DIVISION OF COST ALLOCATION
Sample Indirect Cost Proposal
E. COST POOL AND BASE FOR DISTRIBUTION

The nonprofit has created an Administrative Services Pool consisting of salaries, fringe benefits, and non-salary costs. The Administrative Services Pool is charged with all the indirect costs as defined above. The pool is distributed to the various program activities on the basis of direct salaries, including vacation, holiday, and sick pay but excluding other fringe benefits expended on those activities.

The total direct salaries and wages on which this proposal is based is $1,111,343.

Volunteers involved in any direct activity of the organization should be included in the direct salaries base assuming they meet the requirements outlined in Circular A-122.

Circular A-122 can be found at: www.whitehouse.gov/omb/circulars/index.html

F. SUPPORTING FINANCIAL STATEMENTS

The Schedule of Total Expenditures (Schedule C) contained in this proposal is assumed to agree to the nonprofits audit report Statement of Functional Expenses.

- Audit report, Statement of Functional Expenses: $2,632,449
- Indirect Cost Proposal: $2,632,449

NOTE: Nonprofit must include a complete copy of the audited financial statements with their proposal submission.
### SAMPLE INDIRECT COST PROPOSAL FORMAT FOR NONPROFIT ORGANIZATIONS

#### G. SALARIES

Listed below are the positions, functions, and budgeted annual salaries for the people who comprise the Administrative Services Pool. These positions are charged 100% to Administrative Services.

<table>
<thead>
<tr>
<th>Position</th>
<th>Function</th>
<th>Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Director</td>
<td>General Management</td>
<td>$48,754</td>
</tr>
<tr>
<td>Deputy Director</td>
<td>General Management</td>
<td>$30,664</td>
</tr>
<tr>
<td>Administrative Assistant</td>
<td>General Management</td>
<td>$21,566</td>
</tr>
<tr>
<td>to Executive Director</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative Secretary</td>
<td>Clerical support to the Executive Director</td>
<td>$17,087</td>
</tr>
<tr>
<td>/ Personnel Officer</td>
<td>and Administrative Assistant Responsible for</td>
<td></td>
</tr>
<tr>
<td></td>
<td>personnel information</td>
<td></td>
</tr>
<tr>
<td>Finance Officer</td>
<td>Accounting and related activities</td>
<td>$26,484</td>
</tr>
<tr>
<td>Bookkeeper</td>
<td>Accounting</td>
<td>$20,797</td>
</tr>
<tr>
<td>Bookkeeper</td>
<td>Accounting</td>
<td>$17,215</td>
</tr>
<tr>
<td></td>
<td>Payroll accounting and general disbursements</td>
<td>$16,560</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Custodian</td>
<td>Cleaning</td>
<td>$2,936</td>
</tr>
<tr>
<td>Receptionist</td>
<td>Switchboard / Clerical</td>
<td>$14,232</td>
</tr>
</tbody>
</table>

**Total Administrative Services Pool Salaries:**

$216,295
H. FRINGE BENEFITS

Fringe benefits associated with the positions within the Administrative Services Pool are as follows:

- Payroll taxes:
  - FICA (actual paid) $16,546
  - State Unemployment (actual paid) $1,145 $17,691
  - Health and Life Insurance (actual paid) $22,474
  - Retirement Plan (actual paid) $3,050

  TOTAL $43,215

The nonprofits fringe benefit policies should be included with proposal submission.

I. NON-SALARY COSTS

Each category on non-salary expenditures has been analyzed based on the facts, and Schedule B shows the allocation between the Direct and Administrative Services Pool. Total non-salary direct costs excluding indirect cost reimbursements are $984,656 of which direct is $861,966 and indirect is $122,690.
SAMPLE INDIRECT COST PROPOSAL FORMAT FOR NONPROFIT ORGANIZATIONS

J. COMPUTATION OF BASE AND POOL COSTS

Schedule A (attached) shows the computation of the indirect cost rate for the year ended June 30, 200X. A summary of the rate calculation follows:

Direct Costs (Base - Salaries and Wages):

- TANF: $140,831
- FV/PSA: $950,615
- VAWA/STOP: $18,305
- Memberships and Fundraising: $1,592

Total Direct Salaries: $1,111,343

Indirect Costs (Pool):

- Administrative Services Salaries: $216,295
- Administrative Services Fringe Benefits: $43,215
- Administrative Services Non-salary costs: $122,690

Total Administrative Services: $382,200

K. RATE

Adjusted indirect costs (above - pool): $382,200
Total direct salaries (above - base): $1,111,343
Rate: 34.4%

L. FUNDING OF RATE

When the above rate is applied to the direct salaries paid from the State Department of Children & Families funds (Temporary Assistance for Needy Families) and funds from the U.S. Department of Health and Human Services (FV/PSA), the eligible reimbursement is $374,365 ($140,831 + $950,615 + $1,091,446 x 34.4% = $374,365). However, the allowable budgeted funding for indirect costs was significantly less than the eligible reimbursement. The U.S. Department of Justice programs and other local funds will have to absorb their fair share of the difference, within their funding limitations. The nonprofit can apply to outside sources to absorb any difference in indirect costs paid by other programs.
Sample Indirect Cost Proposal

SAMPLE INDIRECT COST PROPOSAL FORMAT FOR NONPROFIT ORGANIZATIONS

**SCHEDULE A**

Functional Groupings:

Direct Costs (Base - Salaries and Wages):

<table>
<thead>
<tr>
<th>Description</th>
<th>Total Salaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>TANF</td>
<td>$140,831</td>
</tr>
<tr>
<td>FV/PSA</td>
<td>$950,615</td>
</tr>
<tr>
<td>VAWA/STOP</td>
<td>$18,305</td>
</tr>
<tr>
<td>Memberships and Fundraising</td>
<td>$1,592</td>
</tr>
<tr>
<td><strong>Total Direct Salaries:</strong></td>
<td><strong>$1,111,343</strong></td>
</tr>
</tbody>
</table>

Indirect Costs (Pool):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor Costs</td>
<td>$259,510</td>
</tr>
<tr>
<td>Non-Labor Costs</td>
<td>$122,690</td>
</tr>
<tr>
<td><strong>Adjusted Administrative Services Pool:</strong></td>
<td><strong>$382,200</strong></td>
</tr>
</tbody>
</table>

**RATE**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted indirect costs (above - pool):</td>
<td>$382,200</td>
<td>34.4%</td>
</tr>
<tr>
<td>Total direct salaries (above - base):</td>
<td>$1,111,343</td>
<td></td>
</tr>
</tbody>
</table>

(6)
## Sample Indirect Cost Proposal Format for Nonprofit Organizations

**Schedule B**

<table>
<thead>
<tr>
<th>Elements of Cost</th>
<th>Methodology of Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contractual Services</td>
<td>Actual usage.</td>
</tr>
<tr>
<td>Depreciation / Use Allowance</td>
<td>Indirect cost.</td>
</tr>
<tr>
<td>Emergency assistance payments</td>
<td>Direct cost.</td>
</tr>
<tr>
<td>Equipment rental and maintenance</td>
<td>Rental and maintenance on equipment used in central office finance office.</td>
</tr>
<tr>
<td>Equipment / Capital</td>
<td>Purchasing of office furniture for use in performing administrative services.</td>
</tr>
<tr>
<td>Equipment / Minor</td>
<td>Actual usage.</td>
</tr>
<tr>
<td>Food costs</td>
<td>Direct cost.</td>
</tr>
<tr>
<td>Insurance</td>
<td>Actual usage.</td>
</tr>
<tr>
<td>Occupancy</td>
<td>Central office repairs and utilities on basis of square footage used for administrative services.</td>
</tr>
<tr>
<td>Office supplies</td>
<td>Office and janitorial supplies for administrative and program services.</td>
</tr>
<tr>
<td>Other expenses</td>
<td>Based on administrative services actual use.</td>
</tr>
</tbody>
</table>
## Sample Indirect Cost Proposal Format for Nonprofit Organizations

### SCHEDULE B (continued)

<table>
<thead>
<tr>
<th>Elements of Cost</th>
<th>Methodology of Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Postage</td>
<td>Actual usage.</td>
</tr>
<tr>
<td>Professional fees</td>
<td>Accounting and audit services, payroll processing services, charged on work performed for administrative services.</td>
</tr>
<tr>
<td>Program supplies</td>
<td>Programs are charged to project as costs are incurred. Costs are direct costs.</td>
</tr>
<tr>
<td>Printing</td>
<td>Actual usage.</td>
</tr>
<tr>
<td>Renovations and improvements</td>
<td>Direct cost.</td>
</tr>
<tr>
<td>Telephone</td>
<td>Basic services allocated on number of instruments, toll calls charged on basis of logs of such calls for administrative services.</td>
</tr>
<tr>
<td>Travel</td>
<td>Charged based on actual administrative and program use of vehicles. Costs include mileage, transportation, per diem, gas, oil, repairs, and insurance on vehicles.</td>
</tr>
</tbody>
</table>

The methodologies used in this example are not recommended methodologies. They are used for purposes of example only. Allocation of costs should be accomplished on a cost/benefit basis. This cost benefit can be different from one nonprofit to the next.
### Sample Indirect Cost Proposal

#### Schedule C

<table>
<thead>
<tr>
<th>ELEMENTS OF COSTS</th>
<th>(A) PRORATIS</th>
<th>(B) AMOUNT/PERIOD/FOYEA</th>
<th>(C) ADJUSTMENTS</th>
<th>(D) TOTAL</th>
<th>(E) DIRECT PROGRAMS AND ACTIVITIES</th>
<th>(F) INDIRECT COSTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td>$1,327,638</td>
<td>$140,831</td>
<td>$25,136</td>
<td>$1,573,047</td>
<td>$1,125,722</td>
<td>$21,962</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>$245,434</td>
<td>$950,615</td>
<td></td>
<td>$245,434</td>
<td>$1,006,492</td>
<td>$21,962</td>
</tr>
<tr>
<td>Total</td>
<td>$1,573,072</td>
<td>$1,573,072</td>
<td></td>
<td></td>
<td>$2,125,424</td>
<td>$21,962</td>
</tr>
</tbody>
</table>

#### Calculation of the Rate

- **(1)** If the nonprofit organization uses Direct Salaries and Wages excluding fringe benefits as their base, their rate would be calculated as follows:
  - **Rate** = 34.64%

- **(2)** If the nonprofit organization uses Direct Salaries and Wages including fringe benefits as their base, their rate would be calculated as follows:
  - **Rate** = 29.11%

- **(3)** If the nonprofit organization uses Modified Total Direct Costs (MTDC) as their base, their rate would be calculated as follows:
  - **Rate** = 17.4%

#### Explanation of Adjustments

- a) Excludes capital equipment purchases.
- b) Remove unusable costs - $22 Interest = $14 Bad Debt = $36.
- c) Excludes capital renovations and improvements.

#### General Notes
- This is a sample proposal only. It is not intended to prescribe a particular method for allocating costs. An organization should choose the base that they feel will most accurately reflect the true allocation of their indirect costs to each program.
- An organization can use any one of the three bases shown. Regardless of what base (1, 2, or 3) is chosen the total indirect costs ($120,320) do not change. The only thing that changes is the distribution base.
Sample Indirect Cost Proposal

SAMPLE INDIRECT COST PROPOSAL FORMAT FOR NONPROFIT ORGANIZATIONS

1. The indirect cost proposal is supported by: (Include a copy of this document with proposal.)
   - Audited financial statements. If not available include one of the following documents:
     - Federal Form 990
     - Internal Financial Statements
     - Other

2. A reconciliation of item 1. (above) to the indirect cost proposal has been made and is included in this proposal.

3. Unallowable expenses have been eliminated from the indirect cost pool (e.g., donated or contributed salaries and services, bad debts, fund raising, advertising, independent research and development (R&D), depreciation of Federally-furnished assets and lobbying costs, etc.).

4. The direct cost base is complete (i.e., it includes all activities that benefit from the indirect cost pool). For example, fund raising, R&D, project cost sharing, voluntary (e.g., donated or contributed labor and services are included where applicable).

5. A functional analysis of salaries and wages included in the indirect cost pool.
   - If any function is less than 100% show the percent.

6. Treatment of Paid Absences and Fringe Benefits statements have not changed since the last indirect cost rate agreement.

7. We have not made any significant changes, during the proposal fiscal year, (i) to our accounting system, or (ii) to the definition or to the accounting treatment of any expense category (e.g., a change in building/equipment costing methodology, a change in charging an expense from direct to indirect, or vice versa).

8. We have not changed the equipment capitalization threshold during the proposal fiscal year.
   - The capitalization level is . If there is a change made during the proposal fiscal year, indicate the effective date of the change and the new capitalization level.

9. The required "Lobbying Cost Certificate" is attached.

Please explain any boxes not checked on a separate sheet.

Signature
Date

Yes

Organization
SAMPLE INDIRECT COST PROPOSAL FORMAT FOR NONPROFIT ORGANIZATIONS

LOBBING COST CERTIFICATE

I hereby certify that the _______________________________
(name of organization)
has complied with the requirements and standards on lobbying costs in OMB Circular
A-122 for the fiscal year ended _______________________________
(fiscal year covered by indirect cost proposal)

Signature

Name

Title

Date

(Signed by the official having the authority to negotiate indirect cost rates for the organization or by a higher level official)

Note: The above certification is a requirement of OMB Circular A-122. We will not be able to process your indirect cost proposal without this certification.

Page 83
Organization’s contract with FCADV stipulates:

- By entering into this agreement, recipient agrees to comply and cooperate with any monitoring procedures deemed appropriate by FCADV, including regulations under CFOP 75-88, OMB Circular A-110, and OMB Circular A-122. (¶B.8.b. Attachment I)

- The Cost Allocation Plan and the approved budget, included as Attachment III of this contract, are incorporated by reference as a part of this contract. (¶C.1.a. Attachment I)

- Any changes to the Cost Allocation Plan, including any resulting budget changes, must be submitted in writing to the Contract Manager for approval. (¶C.2.b. Attachment I)
Reference Materials

- **OMB Circular A-122**, “Cost Principles for Non-Profit Organization”
- **OMB Circular A-110**, “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-profit Organizations”
- **OMB Circular A-133** “Audits of States, Local Governments, and Non-Profit Organization.”
- **ASMB C-5**, “A Guide for Nonprofits”
- Grants Administration Manual/Grants Policy Directives
- **Internet Sites:**
  - OMB Circulars - [www.whitehouse.gov/omb/grants/index.html](http://www.whitehouse.gov/omb/grants/index.html)
Questions and Answers

- Questions/Discussion
- Please Direct Additional Questions, Comments and/or Suggestions to

Troy Tangen, MAXIMUS
troytangen@maximus.com

Thank You for Your Participation