

FINANCIAL MANAGEMENT

A SOUND INVESTMENT
IN SUCCESSFUL
VR OUTCOMES



INDIRECT COST RATES AND COST ALLOCATION PLANS

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WHAT ARE COST ALLOCATION PLANS AND AN INDIRECT COST RATES?

Cost Allocation Plans and Indirect Cost Rates are:

- ⦿ The means by which costs are identified in a logical and systematic manner for reimbursement under federal awards.
- ⦿ Cost Allocation Plans are documents that identify, accumulate and distribute allowable direct and indirect costs to benefiting activities.
- ⦿ Indirect Cost Rates are means for determining the amount of indirect costs each program should bear.

WHAT DO YOU MEAN BY DIRECT AND INDIRECT COSTS?

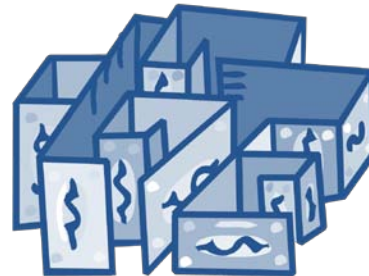
Direct Costs

- Costs that can be identified specifically with a final cost objective



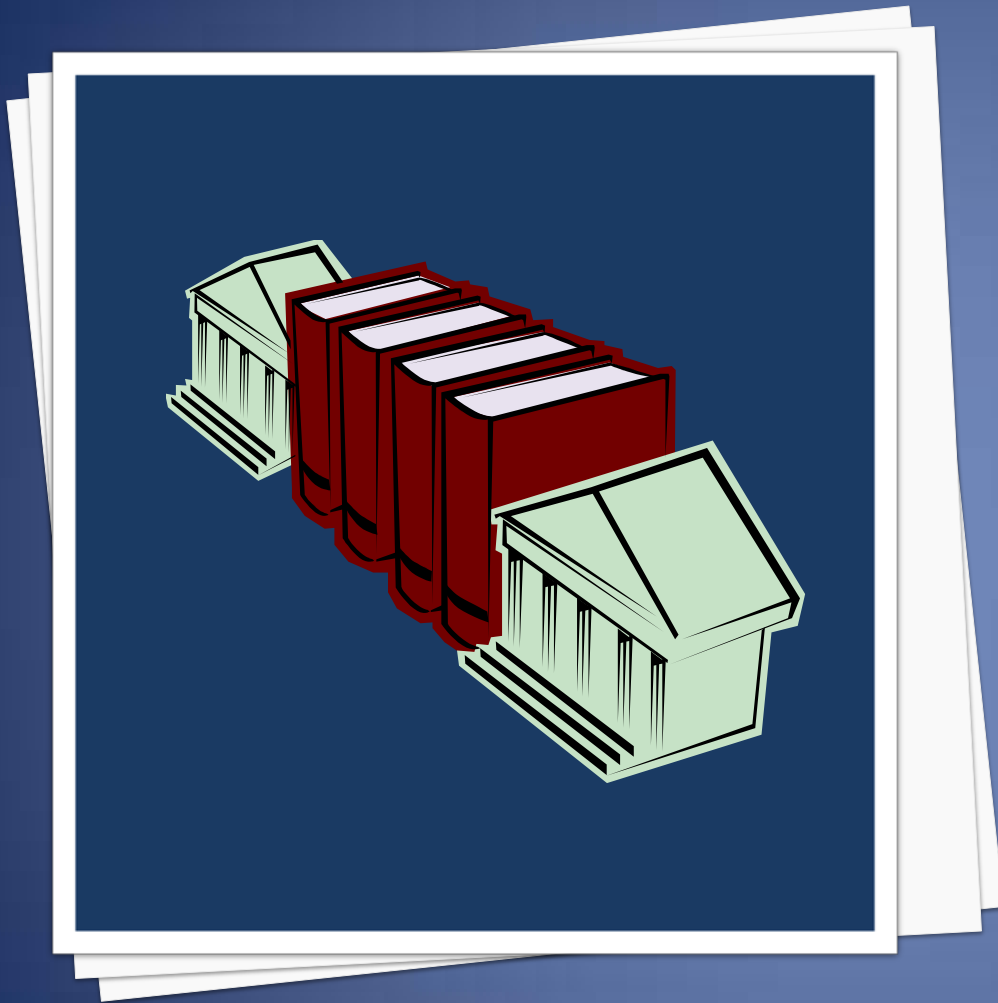
Indirect Costs

- Costs that are incurred for a common purpose benefiting more than one cost objective
- Not readily assignable to the cost objectives specifically benefitted



WHY ARE COST ALLOCATION PLANS OR INDIRECT COST RATES NECESSARY?

- ⦿ Compliance with OMB Circular A-87 (relocated to 2 CFR Part 225)
- ⦿ Documentation for Auditors
- ⦿ Management Information
- ⦿ U.S. Department of Education Requirements



AS DEFINED IN 2 CFR PART 225, A COST ALLOCATION PLAN INCLUDES:

- ❑ Central service cost allocation plan (a.k.a., state-wide-cost-allocation plan (SWCAP))
- ❑ Indirect cost rate proposal
- ❑ Public assistance cost allocation plan
- ❑ Cost allocation plan (indirect cost allocations not using rates)

WHAT IS A CENTRAL SERVICE COST ALLOCATION PLAN?

2 CFR Part 225, Appendix C, defines the central service cost allocation plan as the documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a governmental unit on a centralized basis to its department and agencies.

...ENGLISH PLEASE!

The process used to allocate certain services on a centralized basis (e.g., motor pools, computer centers, purchasing, accounting, etc.) that may not be performed within the scope of the individual entity receiving the award. The process must allocate these costs to the benefiting program in a reasonable and consistent manner.



WHAT DO I NEED TO KNOW?

- ◉ States that wish to charge the costs of central support services to federal awards must first prepare a SWCAP to allocate those costs to departments or units they benefit.
- ◉ States are required to submit a SWCAP to HHS for each year in which it claims central service costs under federal awards.
- ◉ Costs omitted from this plan will not be reimbursed.
- ◉ Approved SWCAPs can be found on the HHS, Division of Cost Allocation website at:
http://rates.psc.gov/fms/dca/dca_swcap.html

WHAT IS AN INDIRECT COST RATE PROPOSAL (IRCP)?

2 CFR Part 225, Appendix E defines an indirect cost rate proposal as the documentation prepared by the governmental unit or subdivision thereof to substantiate its request for the establishment of an indirect cost rate.

WHAT IS AN INDIRECT COST RATE?

Indirect Cost Pool



Direct Cost Base



Indirect Cost Rate

WHAT IS AN INDIRECT COST POOL?

$$\begin{array}{r} + \quad \text{Departmental Costs} \\ \quad \text{SWCAP} \\ \hline = \quad \text{Indirect Cost Pool} \end{array}$$

DO I NEED TO ALLOCATE COSTS VIA AN INDIRECT COST RATE OR COST ALLOCATION PLAN?

- ◉ What type of services does the entity provide?
- ◉ What is the nature of the awards and funding received by the organization?
- ◉ What types of administrative/overhead costs are generated by the entity's activities?

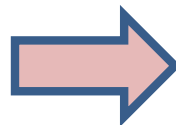
WHAT ARE THE SUBMISSION REQUIREMENTS FOR COST ALLOCATION PLANS AND INDIRECT COST RATE PLANS?

Cost Allocation Plans and Indirect Cost Rate Plans must be:

- ◉ Developed and submitted within six months after the close of the entity's fiscal year;
- ◉ Submitted as required by the cognizant agency;
- ◉ Inclusive of all units desiring to claim indirect costs; and
- ◉ Maintained on file if submission is not required.

WHAT IS THE COGNIZANT AGENCY?

Cognizant agency means the federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost rate proposals developed under 2 CFR Part 225 on behalf of all federal agencies. The cognizant agency is determined by the greatest amount of federal funding awarded from a federal agency to a state governmental unit or is based on a designation by OMB.



DoED COORDINATION WHEN ANOTHER AGENCY IS COGNIZANT?

With regard to indirect cost rate proposals, the Department coordinates with other cognizant agencies when an IDCR proposal involves an ED award that requires a restricted indirect cost rate. VR does not currently require a restricted indirect cost rate.

In addition, ED's Indirect Cost Group assists in resolving indirect cost issues identified through program monitoring.

Grantees are responsible for ensuring that costs are:

- ❑ Allowable
- ❑ Reasonable
- ❑ Treated consistently
- ❑ In compliance with GAAP
- ❑ Allocable to the federal program
- ❑ Proportional to benefit received
- ❑ Adequately documented

HEADS-UP

ABNORMAL MASS/SEVERANCE PAY



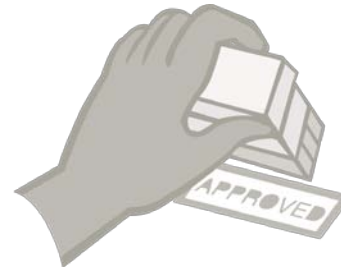
Severance payments, but not accruals, associated with normal turnover are allowable. Such payments shall be allocated to all activities of the governmental unit as an indirect cost.

Abnormal or mass severance pay will be considered on a case-by-case basis and is allowable only if approved by the cognizant federal agency.

...MASS SEVERANCE?

Mass severance or termination benefits would include all expenses associated with the event. This would include: lump sum payments that may be linked to years of service, increased pension benefits such as granting additional years or eliminating penalties for early retirement, payments of unused leave, and the cost of any other incentive offered to employees as an incentive to leave government service, such as buy-outs. (ASMB C-10)

MASS SEVERANCE: PRIOR APPROVAL



The costs of these special termination benefits must be determined and prior approval of such costs must be obtained from the federal cognizant office prior to claiming these costs directly or indirectly against Federal programs. The requests for prior approval, at a minimum, must demonstrate the reasonableness and allocability of such costs to Federal programs.

MASS SEVERANCE: PRIOR APPROVAL REVIEW



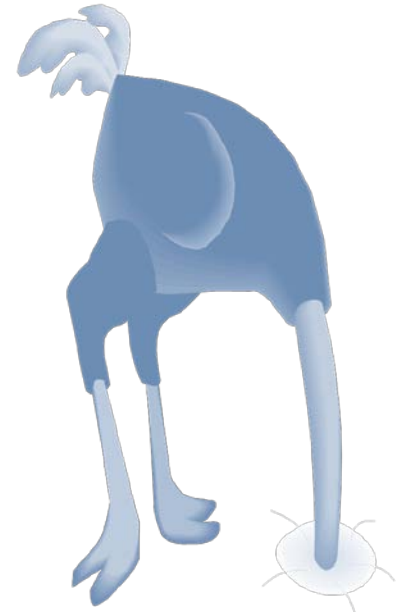
- ◉ Ability to demonstrate costs are allowable to federal award;
- ◉ Buy-out should be government-wide;
- ◉ Plan should address estimated savings, total and Federal, in both dollars and number of employees;
- ◉ Governmental unit should analyze the effect the downsizing will have on the operation, continuity, and effectiveness of programs;
- ◉ Governmental unit and the cognizant agency must establish an agreement providing for compensation to the Federal Government should the terms and conditions of the buy-out/severance plan not be met. (ASMB C-10)

HEADS-UP

TERMINATION LEAVE

When a governmental unit uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and for which leave is paid.

Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component. (2 CFR Part 225, Appendix B)



HEADS-UP

COST SHIFTING



Costs can't be shifted to different awards to avoid funding deficiencies or to circumvent restrictions.

- Agencies paying duplicate costs
- SWCAP expenses not being allocated to the required programs/ awards
- Agency being charged through SWCAP for expenses not allocable to the award

**WHAT FINDINGS HAS
RSA IDENTIFIED
RELATED TO
SWCAPS?**

- Not having a current, approved CAP or ICR
- Costs/salaries included in plan/proposal not being allocated to appropriate programs
- Inconsistency in charging costs as direct or indirect between federal awards
- Costs that do not benefit the award are inappropriately allocated via the ICR

WHAT FINDINGS HAS RSA IDENTIFIED RELATED TO INDIRECT COSTS?

SURVIVAL KIT

Education Department General Administrative Regulations (EDGAR) -

<http://www.ed.gov/policy/fund/reg/edgarReg/edgar.html>

HHS -ASMB C-10 & Other Reference Information -

<http://rates.psc.gov/>

OMB Circulars - <http://www.whitehouse.gov/omb/circulars/>



QUESTIONS?