

Presenter Information

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Our Topics for This discussion:

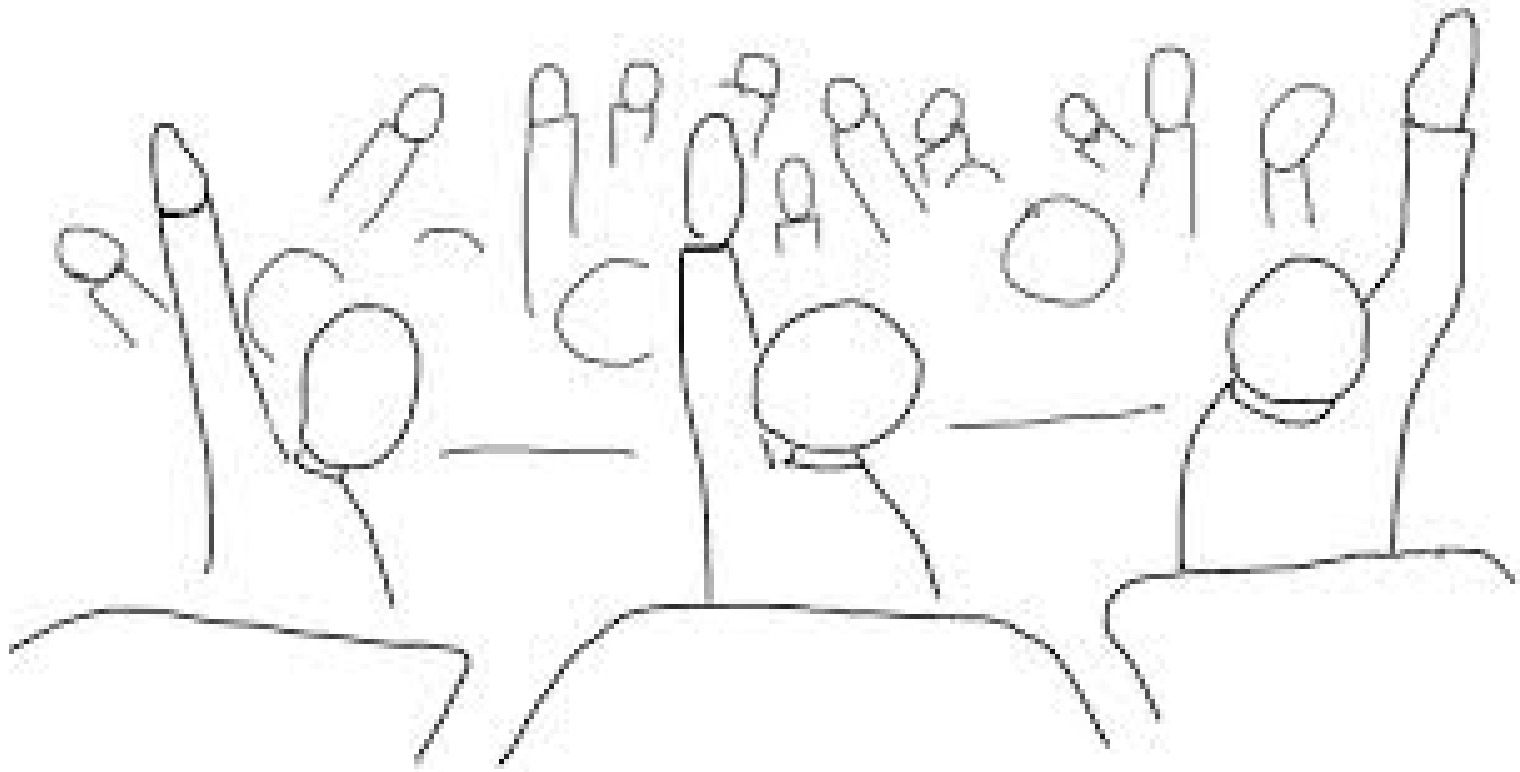
To provide an overview of the following as it pertains to IDC and tribal Nations

- Cost allocation
- Public Law 93-638 as it relates to Contract Support
- Direct Costs
- Indirect Costs
- Allowable costs
- Allocable costs
- Reasonable costs
- Cost Allocation Plans
- IDC Rates
- The process for charging IDC to a grant



- The process for budgeting for IDC for a program
- Factors to consider before accepting a grant
- The Federal rules governing the IDC process
- The 2 major court cases impacting IDC
- The 7 steps for preparing an IDC Proposal
- Common problems that auditors find with IDC

Don't be afraid to ask questions. The more involved you are, the more we all learn!



What are Direct and Indirect \rightarrow \$ Costs?



What are “Direct Costs”?

Direct costs are those costs that can be identified specifically with a particular sponsored project or activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.

- The vast majority of costs are **direct** costs.



Examples of Typical Direct Costs

- **Program** salaries and wages (including vacations, holidays, sick leave, and other excused absences of employees working specifically on objectives of a grant or contract – i.e., direct labor costs).
- Other employee fringe benefits allocable on **direct labor** employees.
- Consultant services contracted **to accomplish specific grant/contract objectives.**



Examples of Typical Direct Costs

- Travel costs for **program** activities.
- Materials, supplies and equipment **purchased directly for use on a specific grant or contract.**
- Communication costs, such as long distance telephone calls or telegrams **identifiable with a specific award or activity.**



What are Your Questions about Direct Costs?



What's Another Way of Explaining What a Direct Cost is?

- Anything that isn't an Indirect Cost
- So, what's an Indirect Cost, then?



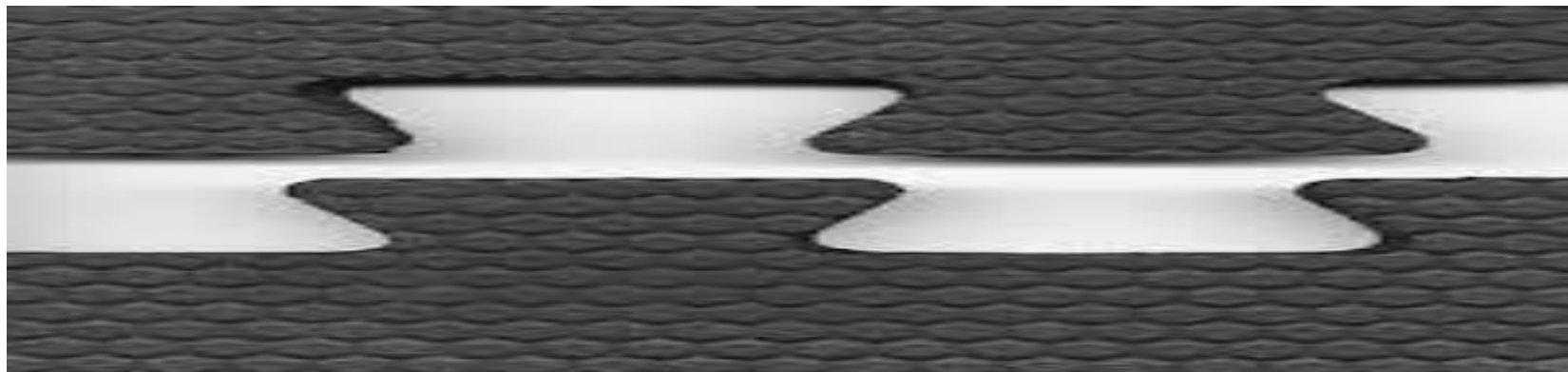
What's an Indirect Cost?

- Anything that isn't a Direct Cost



Indirect Costs

- After direct costs have been determined and assigned directly to Federal awards and other activities as appropriate, indirect costs are those remaining to be allocated to benefited cost objectives.

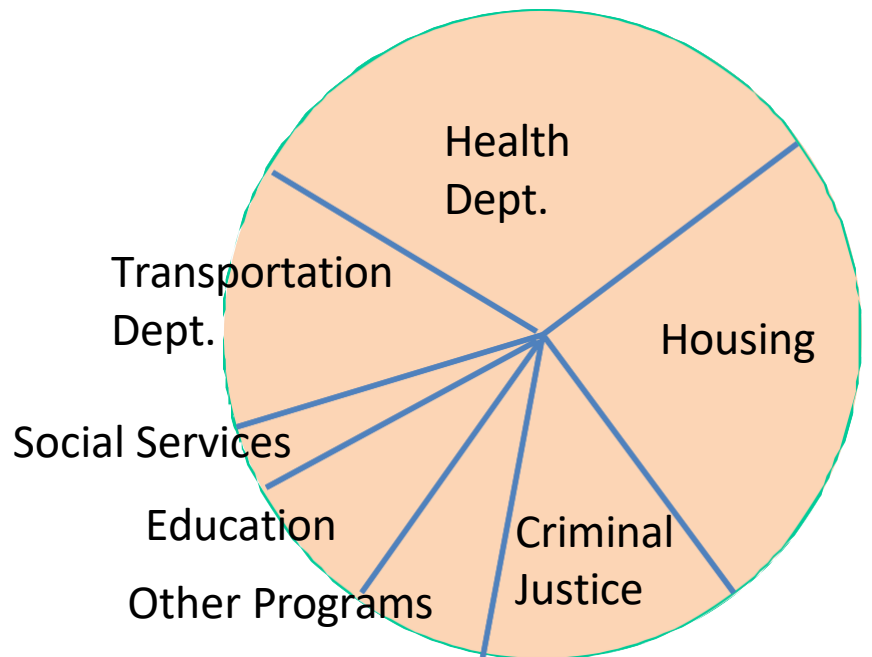


Indirect Costs

- Indirect costs are costs that are incurred to provide **administrative support to all programs**, and are **not readily identifiable with a specific federal grant, contract, project function, or activity**

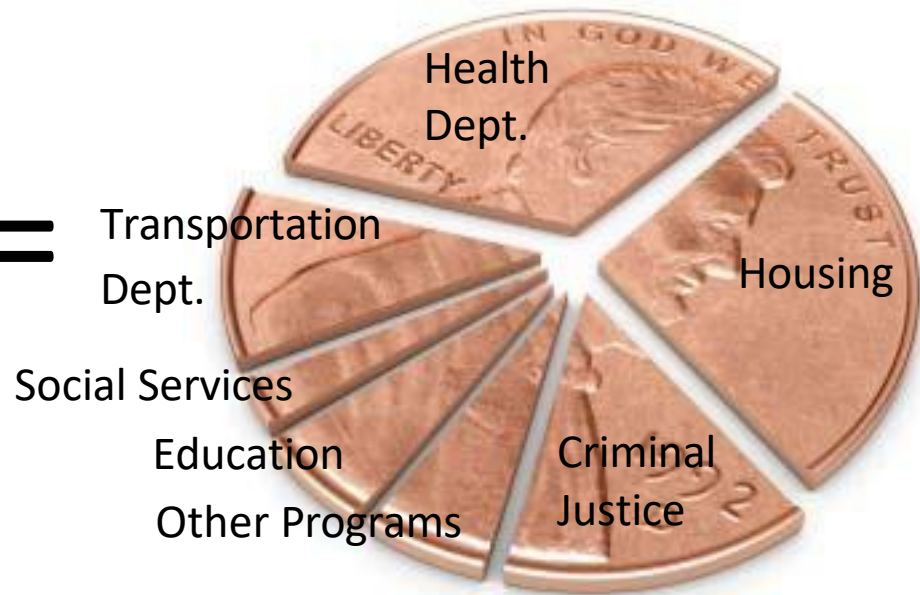


- OMB Uniform Guidance at 2 CFR part 200 require all activities which **benefit from the governmental unit's indirect costs to receive an appropriate allocation of indirect costs.**



**Benefits Received
from IDC**

=



**Responsibility for
Paying for IDC**

Allocating Costs

- We use the process of **cost allocation** to assign common/shared resource costs to cost objectives (programs, activities, etc.) without arbitrary appointment.
- Done through dividing a pool of costs and assigning to programs, activities, etc.
- An effective cost allocation methodology enables an organization to identify what services are being provided and what they cost, to allocate costs to programs, and to manage cost recovery.

Why is Cost Allocation Important?

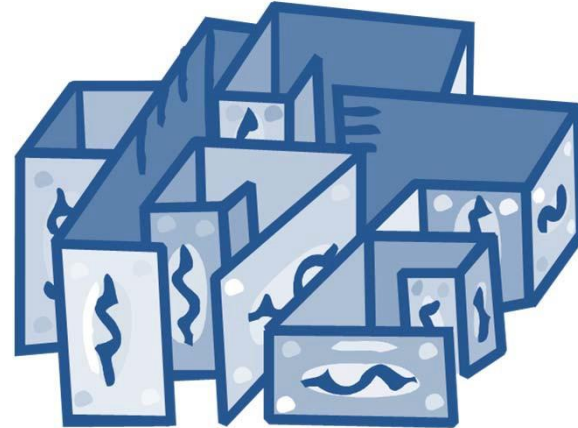
- Finds the true cost of a product or service
- Helps identify financially untenable programs
- Helps senior management/tribal council make more informed strategic and financial decisions
- Calculates the true amount of funding needed to cover all the costs of a program.



Indirect Costs

Specific Examples:

- rent
- utilities
- **staff** salaries
- depreciation on equipment
- supplies that aren't specifically related to programs, but benefit all programs
- communications costs that benefit all programs
- **OMB does not define what is and is not a Direct or Indirect Cost *** They just can't be treated as both**



How do we allocate costs that aren't easily traceable?



Cost Allocation Overview

- **Simple Example:**
 - **Centrally Located Copier**
 - **“Cost to Operate” includes:**
 - Lease Payments
 - Repairs & Maintenance
 - Toner
 - Paper

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 – 20%, C – 50%**
 - **“Better”**
 - **User Codes**
 - **Measures Actual Usage of the Copier**
 - **“Best”**

Most Common Indirect Costs:



Management and Administration: Governing Body, Management and Planning, Financial Management, HR Management, Property Management, Records Management, Data Processing, Office Services

Most Common Indirect Costs:



Facilities and Equipment: Building
Rent/Lease/Cost Recovery, Utilities, Janitorial,
Building and Grounds, Maintenance,
Equipment

Most Common Indirect Costs:

General Services and Expenses: Insurance and Bonding, Legal Services, Audit, General Support Services



How are Indirect Costs Charged to Federal Awards?

Reimbursed According To:

- Indirect Cost Rate; or
- “Indirect Type Costs”
 - For awardees without a negotiated IDC Rate or one that’s 4 years old or older.
 - A lump sum amount may be computed (lump sum agreement negotiated)

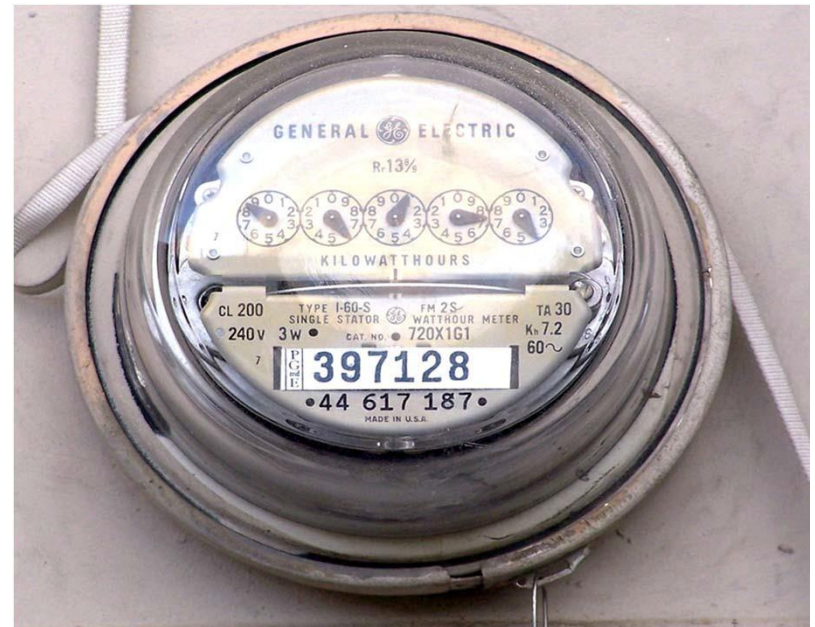


“The most important thing about Direct Costs is...”
“The most important thing about Indirect Costs is...”



- The term “indirect cost” is a bit of a misnomer—programs actually directly use “indirect” services like heat, light, accounting, and personnel--it’s just that these costs aren’t easily traceable.

If all costs are theoretically directly attributable given the right measurement, how does your Tribe determine what’s classified as an IDC?



Finance Makes the Decision

- Direct Costs are spelled out in the budget explicitly
- Will be different depending on the size of the Tribal Nation



Note on Consistency

- A cost may not be allocated to a Federal award as an *indirect* cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a *direct* cost.
- Once a grantee makes an election and treats a given cost as direct or indirect, that treatment must be applied consistently and may not change during the fiscal year.



What Do You Think?
What Do You Think?

Fringe Benefits – Direct or
Indirect?

Fringe Benefits – Direct or Indirect?

- If the position is classified as a direct position, then the salary - along with applicable fringe benefits - should also be treated as direct costs.
- If the position is classified as an indirect position, then the related fringe benefits are to be treated as indirect costs.

Discussion

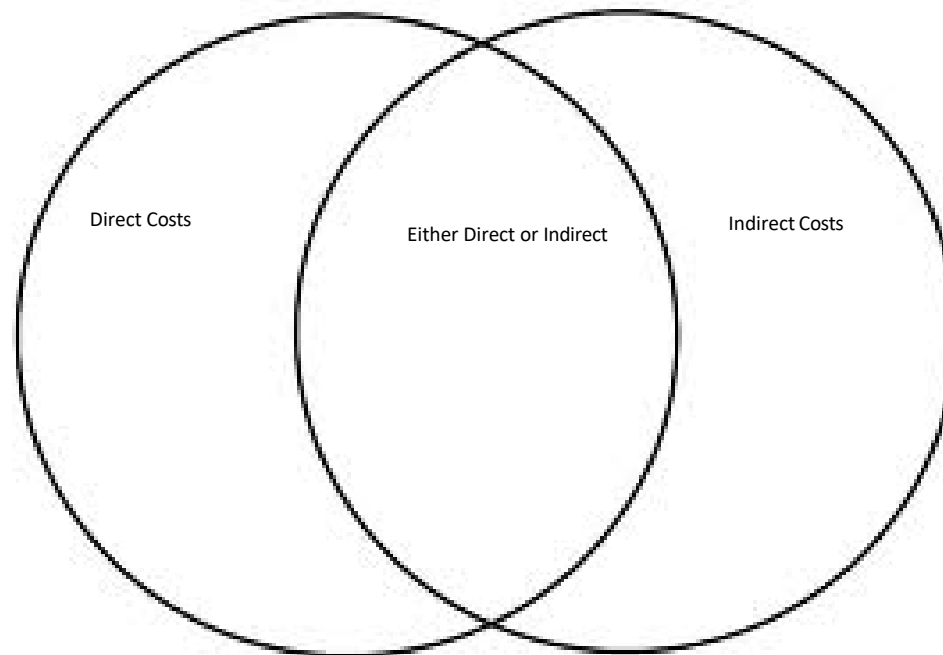
Is it always clear-cut if a cost is direct or indirect?

What are some of the factors that should be considered when deciding if a cost is direct or indirect?

Do you think a Program Director's salary should be a direct or indirect cost? What about an Executive Director?



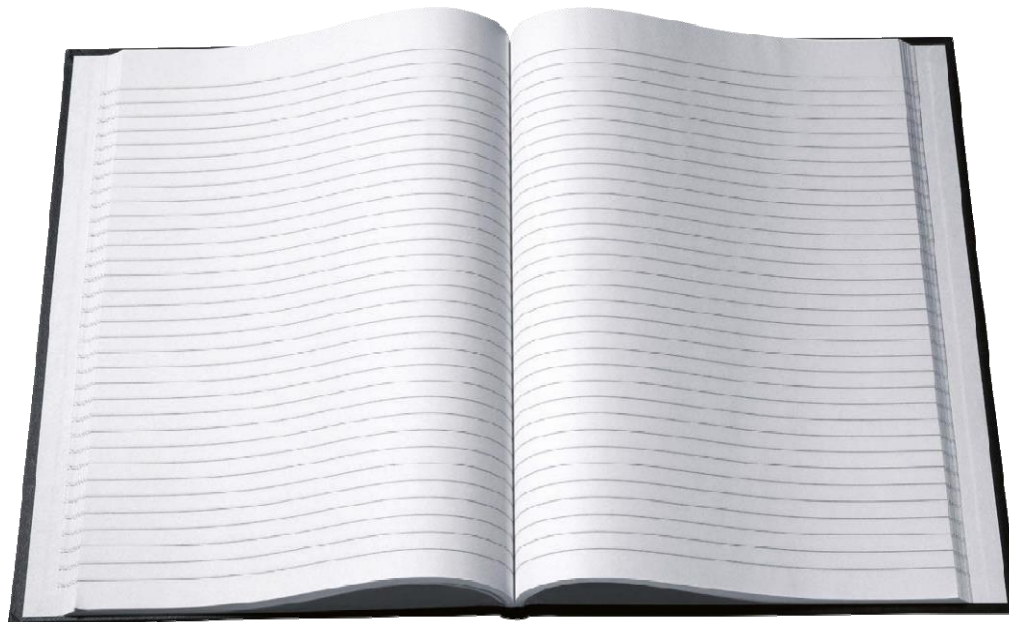
Exercise: Using a Venn Diagram to Chart Direct vs. Indirect Costs



What are Your Questions about Indirect Costs?



More Terms You Should Know





Indirect Cost Rate

- An indirect cost rate is a tool for determining the proportion of indirect costs each program should bear. It's the methodology used to allocate administrative costs to programs.



Indirect Cost Rate

- The ratio (expressed as a percentage) of the pooled indirect costs of an organization to a base of its direct costs.
- Negotiation of the Rate involves a detailed budget proposal for the IDC Pool
(More in-depth discussion later)

What's the Formula for an Indirect Cost Rate?

$$\frac{\textit{Pooled Indirect Costs}}{\textit{Base of Direct Costs}} = \textit{Rate}$$

Or to put it more simply:

$$\frac{\textit{Pool}}{\textit{Base}} = \textit{Rate}$$

Indirect Cost Rate Example Calculation

**Indirect Cost Pool
Divided by
Direct Cost Base**

Indirect Cost Pool = \$2,000,000

Direct Cost Base = \$6,000,000

Rate = 33%

Indirect Cost Pool (“The Pool”)

All the Indirect Costs of the Tribe together make up the pool.

- The pool is accumulated costs that jointly benefit two or more programs or other cost objectives.
- The pool is used as the numerator of the Indirect Cost Rate formula



Indirect Cost Pool

- Administrative cost center for your organization.
- AKA Internal Service Fund.
 - NOT same as General Fund
- Costs charged to IDC Pool must be allowable charges to federal grants & contracts.

Indirect Cost Pool

- Allocated to programs according to an *Indirect Cost Rate Agreement*.
- Tribal governments are required to negotiate a rate agreement each year in order to recover administrative costs from federal grants and contracts.
 - Or now can negotiate one for 4 years

IDC Pool Usually Includes

- Executive Administration (portion of time spent in direct support of programs)
- Programs Administrator
- Finance Department
- Human Resources Dept.
- I.T. Department
- Audit expense
- Custodial Expenses
- Fringe Benefit and Operating Expenses associated with Indirect Cost Pool staff.





IDC POOL

Finance

Purchasing

Audits

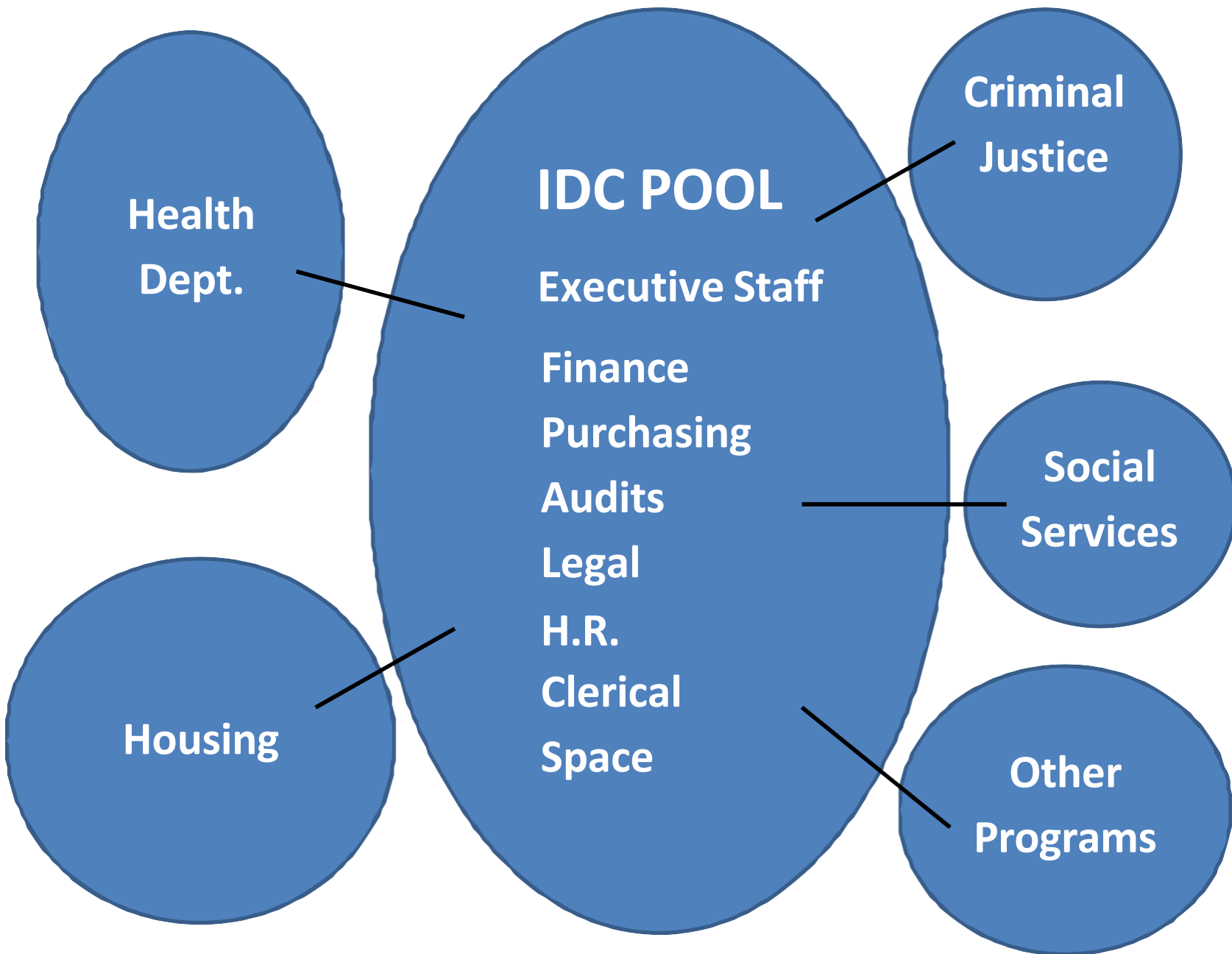
Executive Staff

Legal

H.R.

Clerical

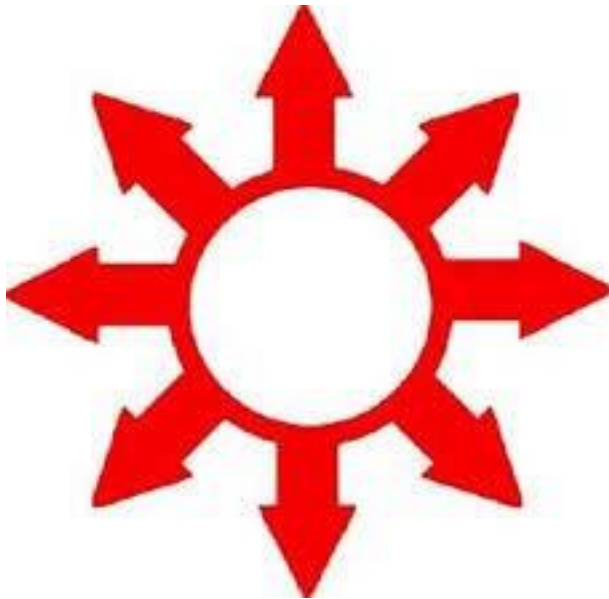
Space



Program Revenue	71,280		86,583		130,739		
IDC Revenue							71,742
							<u>IDC</u>
	<u>Program A</u>		<u>Program B</u>		<u>Program C</u>		<u>Pool</u>
Salaries	25,000		30,000		45,000		24,500
Fringe	8,000		9,600		14,400		7,840
Rent	2,500		3,000		4,500		7,500
Travel	10,000		8,000		15,000		6,000
Contractual	5,000		8,000		12,000		15,000
Supplies	2,500		5,000		5,000		5,500
All other direct costs	1,000		1,500		2,400		2,000
Total Direct charges	54,000		65,100		98,300		68,340
<i>/DC Charge to program 33%</i>	17,820		21,483		32,439		
<u>Total Charges to Program</u>	<u>71,820</u>		<u>86,583</u>		<u>130,739</u>		<u>68,340</u>

Which is a Better Representation of the Way the Cost Allocation Process Works?

A.



B.

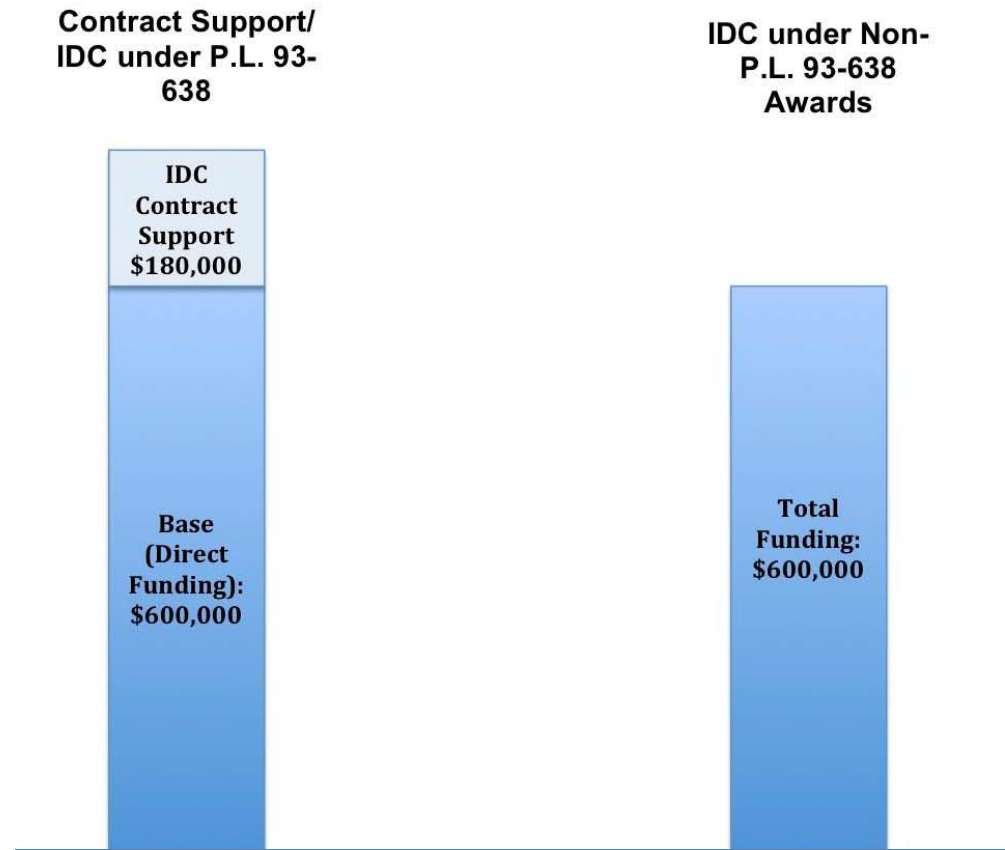


C. Both

P.L. 93-638 Funding vs. Non-P.L. 93-638 Funding

Example:

Your Tribe gets a \$600,000 contract.
Your Indirect Cost Rate is 30%.



The IDC of \$180,000 is added to the program base

(Total funding becomes \$780,000)

IDC comes out of the Total Funding.

(The program will use \$180,000 of the \$600,000 funding for IDC, leaving \$420,000 to spend on Direct Costs)

Calculating Direct on Non 638 grants and contracts

How do I determine how much Direct dollars I have to spend before I begin budgeting?

Example of \$500,000 Total Funding

Assuming an IDC rate of 33%

$$Y \times 1.30 = 500,000$$

$$Y = 500,000 / 1.33$$

$$Y = \$375,940$$

In this example the program would have \$375,940 to budget toward direct expenditures assuming no pass throughs or other capital expenditures.

Direct = \$375,940

Indirect = \$124,060

Total= \$500,000

What are Your Questions about the Pool?



The Base

**A.K.A. Distribution (Allocation) Base;
Direct Cost Base**



"Base" means the accumulated *direct* costs (normally either total direct salaries and wages or total direct costs exclusive of any extraordinary or distorting expenditures) used to distribute indirect costs to individual Federal awards.

- The base is the denominator of the IDC Rate

The Base

The direct cost base selected should result in each award bearing a fair share of the indirect costs in reasonable relation to the benefits received from the costs.



Commonly used distribution bases include the following:

- Direct salaries and wages including applicable fringe benefits
- Direct salaries and wages excluding fringe benefits
- Modified total direct costs (MTDC) (more on this later)



What are Your Questions about the Base?



Excluded Costs

- Certain types of costs (activities) require relatively minimal administrative support compared to the amount of dollars spent. These costs would distort the indirect cost process and are excluded from the calculation of the indirect cost rate.
- Other costs are specifically excluded by regulation.

Excluded Costs Include:

- Capital outlay
 - ex: expenditures for items such as the acquisition of land, improvements to sites, construction or purchase of new buildings, capitalized equipment)
- Pass-throughs or flow-throughs
- Debt service



Excluded Costs Include:

- Judgments against the Tribe
- Certain transfers

Indirect cost recoveries are also categorized as excluded costs.

Excluded

Flow-Through Funds (or Pass-Through Funds)

Funds that are distributed to a primary recipient and subsequently passed through to another organization that actually performs the program for which the funds are provided.

- No measurable involvement by the primary recipient in the expenditure of the funds.
 - Just monitoring and oversight.



Flow-Through Funds (or Pass-Through Funds)

Pass Through/Flow through costs are excluded from the indirect cost rate's base. Examples:

- Large subcontracts
- Recipient stipends
- Scholarships
- And capital expenditures



Why do you think these funds would be excluded from the base?

Over-Recovery

When you collect more indirect costs than you have spent over a given period

What are consequences of over-recovery?



Under-Recovery

When you collect fewer indirect costs than you have spent over a given period

What are consequences of under-recovery?



What are Your Questions about Flow-Through, Exclusions, or Over-recovery?



Indirect Costs Jeopardy



Indirect Costs for \$100

This makes up the denominator of the formula for the Indirect Cost Rate.

Indirect Costs for \$200

This makes up the numerator of the formula for the Indirect Cost Rate.

Indirect Costs for \$500

This is all the Tribe's accumulated costs that jointly benefit 2 or more programs (**indirect costs**).

Indirect Costs for \$600

This is made up of the Tribe's accumulated **direct** costs.

Indirect Costs for \$700

These are costs that are left out of the calculation of the Indirect Cost Rate because they would distort the indirect cost process, or because regulation prohibits them.

Indirect Costs for \$800

This is when you collect more indirect costs than you have spent over a given period.

Indirect Costs for \$900

This is when you collect fewer indirect costs than you have spent over a given period.

Module 4: What Does It Mean to be Allowable, Allocable, and Reasonable?

Allowable



Reasonable

Allocable

Reasonable Cost (see ASMB C-10, 2.8.1)

A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs.



In Determining Reasonableness of a Cost, Consideration Must Be Given To:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.
- Market prices for comparable goods or services.



In Determining Reasonableness of a Cost, Consideration Must Be Given To:

The restraints or requirements imposed by such factors as:

- sound business practices;
- arms length bargaining;
- laws and regulations; and
- terms and conditions of the award.



In Determining Reasonableness of a Cost, Consideration Must Be Given To:

- Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the Tribe, its employees, the public at large, and the federal or state government.



In Determining Reasonableness of a Cost, Consideration Must Be Given To:

- Significant deviations from the established practices of the Tribe which may unjustifiably increase the award's cost.



Allocable Costs (see ASMB C-10, 2.8.2)

Cost is **allocable** to a particular cost objective if the goods or services involved are *chargeable or assignable* to such cost objective *in accordance with the relative benefits received*.

- Applies whether the cost is direct or indirect.
- Shifting of costs between awards to overcome funding deficiencies is not allowed



Allocable Costs

For a cost to be allocable to a Federal award it must be treated consistently with other costs incurred for the same purpose in like circumstances

A cost is allocable to a Government contract if it:

- (a) Is incurred specifically for the contract;
- (b) Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or
- (c) Is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown.

To be Allowable, costs must:

- Be reasonable and allocable
- Be reasonable and allocable
- Conform to any accounting system and over time limitations or exclusions set forth in the cost principles or the award
- Be consistent with the policies and procedures afforded all activities of the organization
- Be accorded consistent treatment (in accounting system and over time)
- Be determined in accordance with GAAP
- Be included in a cost sharing or matching requirement

Continued...

Continued...

More Tests for Allowability

- Is it unallowable by law/resolution/or grant or contract agreement?
 - Read your agreements carefully!
- Is it net of all applicable credits?
- Is it adequately documented?



HR's Role in Documentation

- **Salary and Wage Certifications:** Used when employees are expected to work on a single federal award or cost objective during the period being certified. The certifications should be:
 - Prepared at least semi-annually and
 - Signed by the employee or supervisory official with first-hand knowledge of the employees' work.

(continued)

What is a Personnel Activity Report (PAR)?

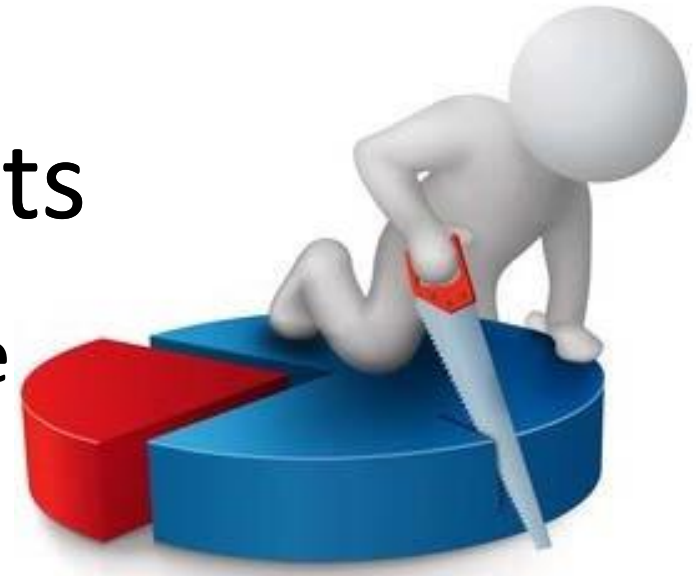
- A PAR is a timesheet or log maintained by the employee which contemporaneously accounts for 100% of their time. The objective is to identify effort spent on multiple activities or programs. Breaks, meals, generic training, etc. can all be coded to a single activity such as "admin" or "other," which in turn would be reallocated to the activities or programs.

HR's Role in Documentation

- **PARs or equivalent documentation** is required for employees who work on multiple activities, i.e.:
 - More than one federal award; or
 - A federal and a non-federal award; or
 - An indirect and a direct cost activity; or
 - Two or more indirect activities with different cost allocation bases; or
 - An unallowable activity and a direct or indirect cost activity.

Unallowable Costs

Costs that are not allowed to be charged to a federal project



- Unallowable costs are excluded from the Indirect Cost Rate and from Indirect Cost Pools
 - So, when we budget for indirect costs, we exclude these costs

Unallowable Costs



- Specifically identified in the grant/contract as being unallowable
- Specifically identified in Circular A-87 (or the Super Circular for awards made after Dec 26, 2014) as being unallowable
- Does not meet the criteria listed in Circular A-87 (or Super Circular) to be allowable

What if an item is not listed in the Circular?

- If a similar item is discussed, it may be that allowability can be determined by assessing the degree to which common characteristics exist between the two cost items; or
- Applying the general tests of allowability contained in Attachment A of Circular A-87/the Super Circular could be determinative.
- For difficult cases, it may be advisable to seek advance understanding with the awarding or cognizant agency

Module 5: Indirect Cost Rates



4 Friends Go Out to Dinner. 3 get a steak, and one gets a salad.

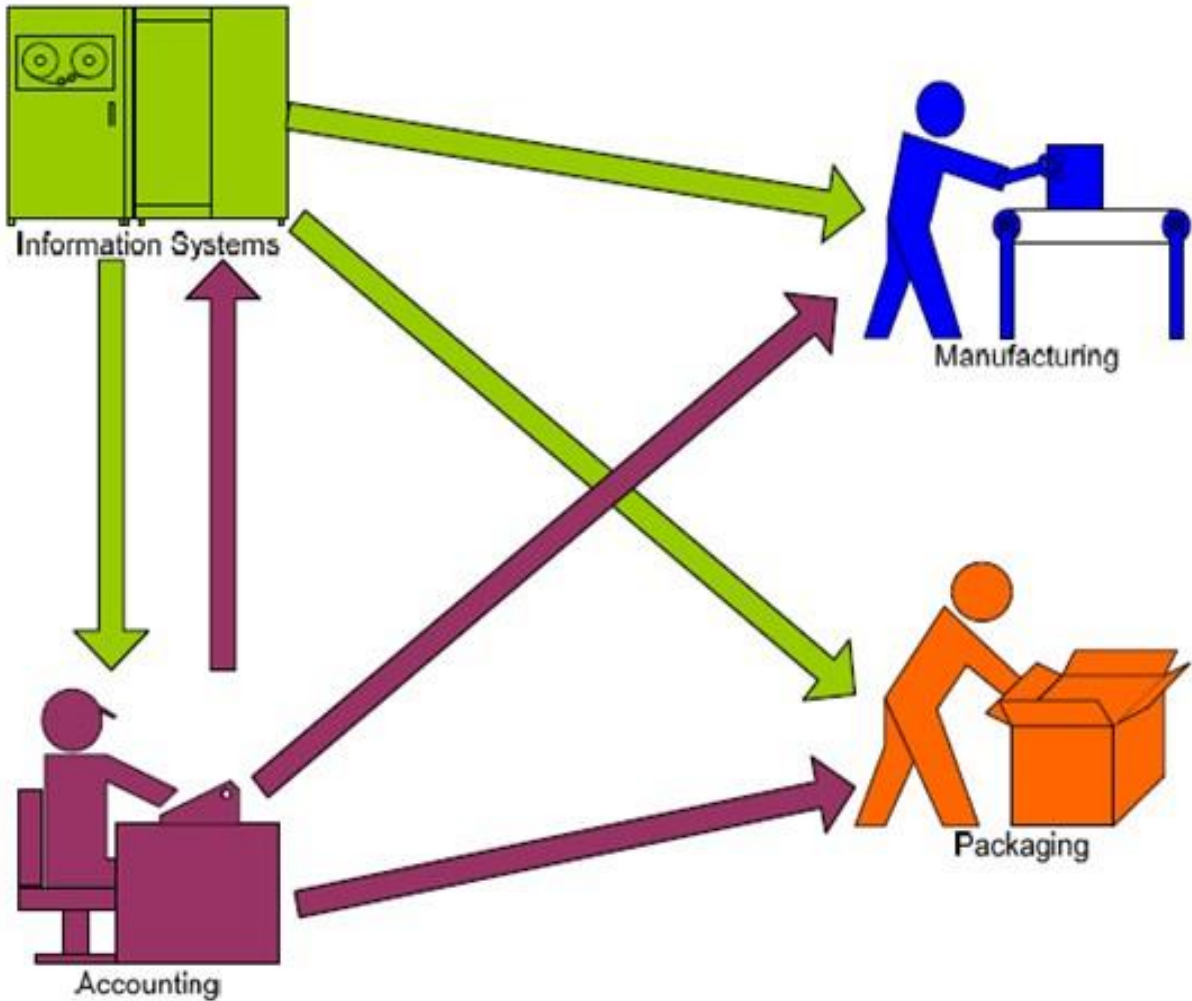
What are Different Ways They Could Split The Bill?



How Does Your Tribe Decide How it Will Fairly Allocate Costs?

Support Departments

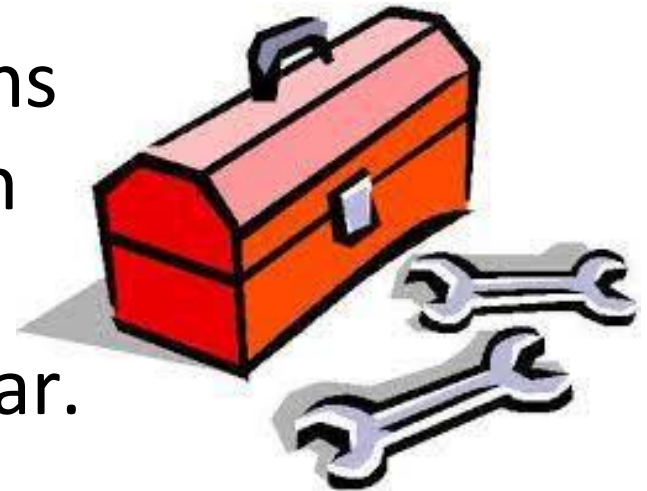
Production Departments



Indirect Cost Rate

- Indirect costs are normally charged to Federal awards by the use of an **indirect cost rate**.

The IDC rate is a mechanism for determining, fairly and conveniently, what proportions of Departmental/organization *administration* costs each individual program should bear.



Indirect Cost Rates are Used Both For:

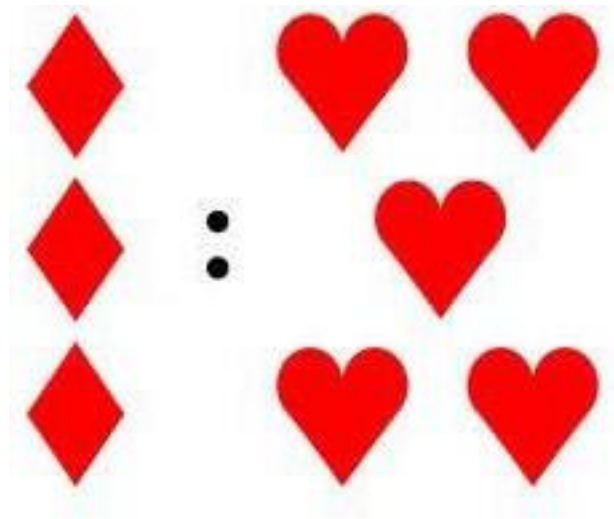
- Funding indirect costs



- Charging indirect costs

INVOICE

In general terms, an indirect cost rate is the percentage of an organization's indirect costs to its direct costs.



Why an IDC Rate is Necessary

Used for:

- Management information
 - Why/when do YOU think it would be useful here?
- To be in compliance with Federal regulations, (e.g. A-87/Super Circular)
- Close-out purposes
- Audit documentation



Why an IDC Rate is Necessary

Unless you have a very small organization, determining indirect costs by calculating actual usage on a case-by-case basis would be very hard to keep track of.

Having an IDC rate simplifies it.



**simple is
beautiful.**

The indirect cost rate can be used to budget the amount of indirect costs allowable for a program (so you won't go over budget) and then to claim the actual amount of indirect costs after the program expenditures have been made.

It is important to remember that when recovering/charging indirect costs, the indirect cost rate is applied to the amount actually expended, not the total amount budgeted.

Indirect Cost Rate Example

Indirect Cost Pool = \$ 10,000

Distribution Base = \$100,000

(Salaries & Benefits)

Indirect Cost Rate = 10%

Indirect Cost Rate Example: Multiple Grants

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 = $\frac{\$100,000}{\$1,000,000} = 10\%$

Indirect Cost Rate Example: Multiple Grants (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)

How do you know what numbers to plug in for the pool and base?

The person in charge of calculating the rate uses an indirect cost rate worksheet and/or software as a tool to determine:

- what will make up the pooled indirect costs that are used as the numerator of the IDC Rate formula
- what will make up the direct costs that make up the Base (the denominator).



Exercise

- Calculating the Indirect Cost Rate

It gets a little bit more complex when we talk about what's in the base and determining what costs should be included or excluded.



Where Does the Base Come From?

Can either be:

Just **Direct Salaries and Wages**

- Total Direct Salaries and Wages excluding Fringe Benefits (S&W); or
- Total Direct Salaries and Wages, including Fringe Benefits (SWF)

Or...

Where Does the Direct Cost Base Come From?

- **Modified Total Direct Costs**--A distribution base that consists of all salaries and wages, fringe benefits, materials and supplies, services, travel, and subgrants and subcontractors (up to the first \$25,000 of each subgrant or subcontract)
 - excludes capital costs, pass-through funding, and unallowable costs



What type of distribution base should my organization select?

The distribution base chosen should result in each award bearing a proportionate share of the indirect costs relative to the benefits received from those costs.



What type of distribution base should my organization select?

Example:

Several of your programs and grants do not pay salaries. Which is the best base to use?

- A. Total Direct Salaries and Wages excluding Fringe Benefits (S&W); or
- B. Total Direct Salaries and Wages, including Fringe Benefits (SWF)
- C. Modified Total Direct Costs (MTDC)

Answer: C, Modified Total Direct Costs

Why?

If you use total direct salaries and wages as the base, those programs paying most of the salaries and wages would bear a larger, disproportionate share of the indirect costs.

What Else Should You Consider in Choosing the Base?

Choosing the base is a strategic decision. Factors include:

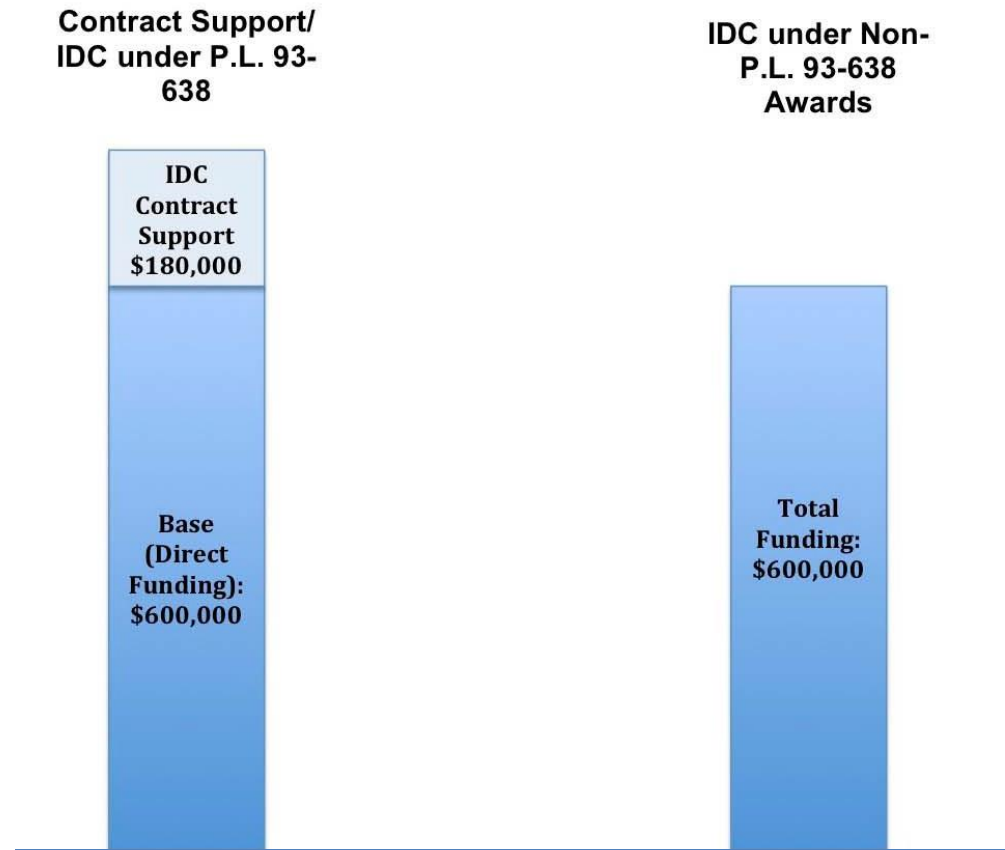
- Amount of Tribal dollars added to the programs served by the pool
- Percentage of grant awards which do not allow indirect costs to be charged
- Percentage of funds received under PL 93-638
 - Remember...



P.L. 93-638 Funding vs. Non-P.L. 93-638 Funding

Example:

Your Tribe gets a \$600,000 contract.
Your Indirect Cost Rate is 30%.



The IDC of \$180,000 is added to the program base

(Total funding becomes \$780,000)

IDC comes out of the Total Funding.

(The program will use \$180,000 of the \$600,000 funding for IDC, leaving \$420,000 to spend on Direct Costs)

Class Discussion

- How does the base chosen impact the extent to which each award bears a proportionate share of the indirect costs relative to the benefits received from those costs?



What are Your Questions about Indirect Cost Rates so far?



Let's Get a Little More In-Depth...

- There are four possible types of indirect cost rates:
 - Provisional
 - Final
 - Fixed
 - Predetermined
- But provisional and final rates are actually two stages of one approach.



Provisional Rate

- A ***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.



Final Rate

- A *final* rate is established after the costs are known.
- It adjusts the provisional rate but is administratively burdensome.
- Underpayments resulting from application of the provisional rate are subject to availability of funds, while overpayments must be credited or returned.



Fixed Rate

- A ***fixed*** rate is also agreed to in advance, based on an estimate of future costs, but it is not retroactively adjusted.
 - Instead, the difference between estimated and actual costs is carried forward to future years.



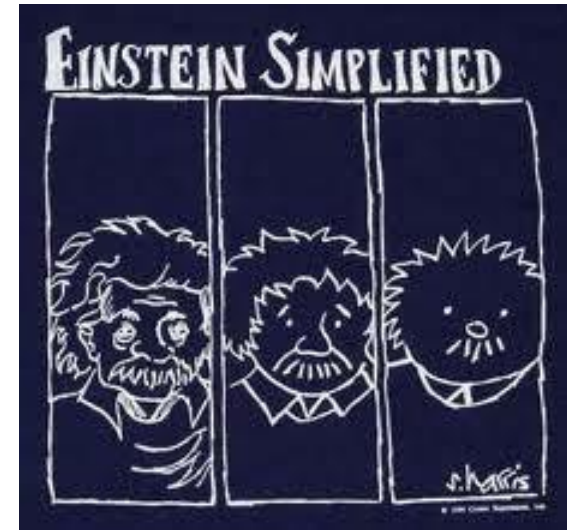
Predetermined Rate

- A ***predetermined*** rate is agreed to in advance, based on an estimate of future costs, but is not subject to adjustment except under very unique circumstances.
- It is intended to be permanent and thereby reduce the administrative burden associated with indirect cost recovery.



There are 2 Methods for Calculating Indirect Cost Rates

- Simplified Method
- Multiple Rate Method



Simplified Method

- Where each of a tribe's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished under the simplified method.



Steps Involved in Calculating a Rate Under the Simplified Method

1. Adjust indirect costs for the period by eliminating any costs directly reimbursed through a Federal award awarded specifically for that purpose. For example, if a construction grant was received, then no depreciation or use allowance should be included in the indirect cost pool. Likewise, remove any administrative salaries included in the pool that were funded as direct in a grant. The pool also must be adjusted for any A-87 unallowables and capital expenditures. Use allowances should be computed and added to the pool along with any CSCAP allocations.
2. Adjust direct costs by eliminating flow-through funds and capital expenditures. Compute and add use allowances.
3. Divide the total allowable indirect costs (net of applicable credits) by an equitable direct cost base, e.g. salaries and wages or modified total direct costs.

Illustration 6-1

**Sample Indirect Cost Rate Proposal - Simplified Method
Department of Environmental Services
For the Fiscal Year Ended June 30, XXXX**

					<u>Direct Costs (c)</u>	
	<u>Total</u>	<u>Exclusions</u>	<u>Expenditures Not Allowable</u>	<u>Indirect Costs</u>	<u>Direct Salaries & Wages</u>	<u>Expenditures For All Other Purposes</u>
	<i>(e)</i>	<i>(a)</i>	<i>(b)</i>	<i>(d)</i>		
<i>Division/Bureau</i>						
Air Quality and Noise	\$ 438,338		\$ 36,820	\$ 47,480	\$ 206,320	\$147,718
Community Environmental Control	691,931		22,161	61,210	481,182	127,378
Water Quality Management	2,390,738	\$1,800,000	9,945	52,641	410,771	117,381
Solid Waste Disposal	1,153,057		106,210	96,847	643,782	306,218
Parks and Forests	<u>844,617</u>		<u>115,000</u>	<u>91,119</u>	<u>450,788</u>	<u>187,710</u>
Subtotal	\$5,518,681	\$1,800,000	\$290,136	\$349,297	\$2,192,843	\$886,405
<i>Departmental Indirect Costs</i>						
Office of the Director	\$ 122,610			\$122,610		
Financial Management	155,275			155,275		
Administrative Services	86,930			86,930		
Equipment Use	<u>16,800</u>			<u>16,800</u>		
Running Subtotal	\$5,900,296	\$1,800,000	\$290,136	\$730,912	\$2,192,843	\$886,405
<i>Services Furnished (But Not Billed)</i>						
<i>By Other Government Agencies (f)</i>						
Personnel	\$ 87,060			\$ 87,060		
Accounting	216,220			216,220		
Purchasing	22,211			22,211		
Audit	<u>12,210</u>			<u>12,210</u>		
Total	<u>\$6,237,997</u>	<u>\$1,800,000</u>	<u>\$290,136</u>	<u>\$1,068,613</u>	<u>\$2,192,843</u>	<u>\$886,405</u>

This is a sample. It is not intended to prescribe methods of charging costs.

	Indirect	Direct	Salaries
<u>Division/Bureau</u>	<u>Costs</u>	<u>and Wages</u>	<u>Ratio</u>
Air Quality & Noise	\$47,480	\$206,320	23.01%
Community Environmental Control	\$61,210	\$481,182	12.72%
Water Quality Management	\$52,641	\$410,771	12.82%
Solid Waste Disposal	\$96,847	\$643,782	15.04%
Parks & Forests	\$91,119	\$450,788	20.21%

Illustration 6-1

**Sample Indirect Cost Rate Proposal - Simplified Method
Department of Environmental Services
For the Fiscal Year Ended June 30, XXXX**

					<u>Direct Costs (c)</u>	
	<u>Total</u>	<u>Exclusions</u>	<u>Expenditures Not Allowable</u>	<u>Indirect Costs</u>	<u>Direct Salaries & Wages</u>	<u>Expenditures For All Other Purposes</u>
	<i>(e)</i>	<i>(a)</i>	<i>(b)</i>	<i>(d)</i>		
<i>Division/Bureau</i>						
Air Quality and Noise	\$ 438,338		\$ 36,820	\$ 47,480	\$ 206,320	\$147,718
Community Environmental Control	691,931		22,161	61,210	481,182	127,378
Water Quality Management	2,390,738	\$1,800,000	9,945	52,641	410,771	117,381
Solid Waste Disposal	1,153,057		106,210	96,847	643,782	306,218
Parks and Forests	<u>844,617</u>		<u>115,000</u>	<u>91,119</u>	<u>450,788</u>	<u>187,710</u>
Subtotal	\$5,518,681	\$1,800,000	\$290,136	\$349,297	\$2,192,843	\$886,405
<i>Departmental Indirect Costs</i>						
Office of the Director	\$ 122,610			\$122,610		
Financial Management	155,275			155,275		
Administrative Services	86,930			86,930		
Equipment Use	<u>16,800</u>			<u>16,800</u>		
Running Subtotal	\$5,900,296	\$1,800,000	\$290,136	\$730,912	\$2,192,843	\$886,405
<i>Services Furnished (But Not Billed)</i>						
<i>By Other Government Agencies (f)</i>						
Personnel	\$ 87,060			\$ 87,060		
Accounting	216,220			216,220		
Purchasing	22,211			22,211		
Audit	<u>12,210</u>			<u>12,210</u>		
Total	<u>\$6,237,997</u>	<u>\$1,800,000</u>	<u>\$290,136</u>	<u>\$1,068,613</u>	<u>\$2,192,843</u>	<u>\$886,405</u>

This is a sample. It is not intended to prescribe methods of charging costs.
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Illustration 6-2

Department of Environmental Services Sample Indirect Cost Rate Proposal - Simplified Method For the Fiscal Year Ended June 30, XXXX

<u>Total</u>	<u>Exclusions & Expenditures Not Allowable</u>	<u>Indirect Costs</u>	<u>Direct Salaries & Wages</u>	<u>Other Direct Expenditures</u>
<u>\$6,237,997</u>	<u>\$290,136</u>	<u>\$1,068,613</u> (A)	<u>\$2,192,843</u> (B)	<u>\$886,405</u>

(A) divided by (B) = $\frac{\$1,068,613}{\$2,192,843}$ = Indirect cost rate of 48.73% of direct salaries and wages, excluding fringe benefits.

***This is a sample. It is not intended to prescribe methods of charging costs.

Steps Involved in Calculating Rates Under the Multiple Rate Method

1. Classify departmental indirect costs into functional cost groupings (cost pools) which benefit divisions of the agency in significantly different proportions.
2. Select appropriate bases for distribution of each classified pool of indirect costs.
3. Distribute each classified pool to the benefitting division.
4. Calculate an indirect cost rate for each division of the agency by relating the total indirect costs allocated to that division to that unit's direct cost base.

Illustration 6-3

**Sample Indirect Cost Rate Proposal - Multiple Rate Method
Department of Environmental Services
For the Fiscal Year Ended June 30, XXXX**

	Allocation Base (a)	Total Indirect Costs (b)	Services Furnished by Other Gov't Agencies				Departmental Costs (d)				
			Personnel	Accounting	Purchasing	Audit	Director	Financial Mgmt.	Admin Services	Equipment	Total (f)
<i>Services Furnished (But Not Billed) By Other Government Agencies (c)</i>											
Personnel	No. of Employees	\$ 87,060	(\$87,060)								
Accounting	No. of Employees (e)	216,220		(\$216,220)							
Purchasing	No. of Purchase Orders	22,211			(\$22,211)						
Audit	No. of Audit Hours	<u>12,210</u>				(\$12,210)					
Subtotal		\$ <u>337,701</u>									
<i>Departmental Indirect Costs</i>											
Director's Ofc.	Direct Salaries & Wages	\$ 122,610				(\$122,610)					
Financial Mgmt.	Transactions Processed	155,275					(\$155,275)				
Admin. Services	Direct Salaries & Wages	86,930						(\$86,930)			
Equipment Use	Uses of Equipment	<u>16,800</u>							(\$16,800)		
Subtotal		\$ <u>381,615</u>									
<i>Division/Bureau</i>											
Air Quality and Noise	\$	47,480	\$ 17,545	\$ 41,495	\$ 3,434	\$ 1,089	\$ 24,522	\$ 23,776	\$ 15,543	\$ 1,000	\$ 175,884
Community Environmental Control		61,210	12,920	30,575	3,434	1,089	24,522	29,885	10,659	1,000	175,294
Water Quality Management		52,641	11,997	28,394	2,289	1,089	24,522	37,273	10,659	6,000	174,864
Solid Waste Disposal		96,847	36,935	87,362	11,456	6,777	24,522	46,423	29,488	6,000	345,810
<u>Parks and Forests</u>		<u>91,119</u>	<u>7,663</u>	<u>28,394</u>	<u>1,598</u>	<u>2,166</u>	<u>24,522</u>	<u>17,918</u>	<u>20,551</u>	<u>2,800</u>	<u>196,761</u>
Subtotal		\$ <u>349,297</u>									
Totals		<u>\$1,068,613</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>\$ 1,068,613</u>

This is a sample. It is not intended to prescribe methods of charging costs.

Illustration 6-4

Sample Indirect Cost Rate Proposal - Multiple Rate Method Department of Environmental Services For the Fiscal Year Ended June 30, XXXX

<u>Divisions/Bureaus</u>	<u>Indirect Costs</u> <i>(a)</i>	<u>Direct Salaries and Wages</u> <i>(b)</i>	<u>Indirect Cost Rates</u> <i>(c)</i>
Air Quality and Noise	\$ 169,560	\$ 206,320	82.18%
Community Environmental Control	169,200	481,182	35.16%
Water Quality Management	168,666	410,771	41.06%
Solid Waste Disposal	336,612	643,782	52.29%
Parks and Forests	<u>190,904</u>	<u>450,788</u>	<u>42.35%</u>
Total	<u>\$1,068,613</u>	<u>\$2,192,843</u>	

This is a sample. It is not intended to prescribe methods of charging costs.

Special Rates

There may be instances where a single indirect rate for all activities of a recipient department or agency may not be appropriate.

Factors that may create need for separate rates:

- different physical locations for work,
- level of administrative support needed
- organizational arrangements
- subaward practices

- We'll discuss the process for submitting IDC Rate Proposals later on.
- What are your questions questions at this point?

