



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


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# Cost Principles and Requirements

- States/Territories and Local Governments
  - 2 CFR Part 200 “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards”
    - <https://cfo.gov/cofar/>
    - Subpart E - Cost Principles
    - Appendix V – State/Local Govt Central Service Cost Allocation Plans
    - Appendix VI - Public Assistance Cost Allocation Plans
    - Appendix VII – States & Local Government Indirect Cost Proposals
  - ASMB C-10 “Implementation Guide for OMB Circular A-87
  - <http://rates.psc.gov/fms/dca/s&l.html>



# Federal Cost Principles (formerly OMB Circular A-87)

- Entered into Code of Federal Regulations (2 CFR Part 225) in August 2005, modified and moved to 2 CFR Part 200) in December of 2013
- Applicable since 1969
- Provides principles and procedures for the identification and recovery of
  - Direct costs
  - Government-wide indirect costs
  - Agency/Department indirect costs
  - Billed services



## 2 CFR Part 200 Structure

- Subpart A – Acronyms and Definitions
- Subpart B – General Provisions
- Subpart C – Pre-Federal Award Requirements and Contents of Federal Awards
- Subpart D – Post Federal Award Requirements
- Subpart E – Cost Principles
- Subpart F – Audit Requirements



# Subpart A: Definitions

- § 200.9 Central Services Cost Allocation Plan
  - the documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a state, local government, or Indian tribe on a centralized basis to its departments and agencies
- § 200.57 Indirect cost rate proposal
  - the documentation prepared by a non-Federal entity to substantiate its request for the establishment of an indirect cost rate



# Subpart A: Definitions

- § 200.74 Pass through entity
  - a non-Federal entity that provides a sub award to a subrecipient to carry out part of a Federal program.
- § 200.93 Subrecipient
  - a non-Federal entity that receives a sub award from a pass-through entity to carry out part of a Federal program; may also be a recipient of other Federal awards directly from a Federal awarding agency.



## **2 CFR Part 200: Effective Date for Cost Allocation and Indirect Rates**

- Existing indirect rate agreements will remain in place until a newly re-negotiated rate goes into effect
- Non-Federal agencies can begin submitting cost allocation plans and indirect cost rates based on the 2 CFR Part 200 for fiscal years beginning after 12/26/14



## Subpart B: Basic Principle

“The principles are designed to provide that Federal awards bear their fair share of cost recognized under these principles except where restricted or prohibited by statute”





# Subpart E: Policy Guides

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



# Subpart E: § 200.401 Application

- Federal awards
- Internal service fund billings
- Inter-agency billings
- Sub-awards
- must be used by the non-Federal entity as a guide in the pricing of fixed-price contracts and subcontracts where costs are used in determining the appropriate price.



## **Subpart E: §200.402-11 Basic Considerations**

- Necessary and reasonable
- All activities charged uniformly
- Allocable
- Authorized under state or local laws
- Not otherwise restricted by statute
- Consistent treatment
- In accordance with GAAP
- Not included as a cost of another Federal award
- Net of all applicable credits
- Adequately documented



## Subpart E: Direct & Indirect Costs

- **Direct Cost** - can be identified specifically with a particular final cost objective. §200.413
- **Indirect Cost** - incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.  
§200.56



## Subpart E: General Provisions for Selected Items of Cost

- Begins at §200.420
  - Principles for establishing cost allowability
  - Discussion on 55 cost items
  - Should review all items, many include caveats.
- Today's presentation
  - Discussion of unallowable cost items
  - Discussion of costs which commonly incur audit/review findings



# Subpart E: Unallowable Costs

- Advertising for public relations §200.421
  - Advertising for recruitment, procurement, disposal/surplus materials, program outreach are allowable
- Alcoholic beverages §200.423
- Audit services §200.425
  - Unallowable if required Single Audit is not conducted
  - Unallowable if exempt from Single Audit.
- Bad debts §200.426
- Contingencies § 200.433



## Subpart E: Unallowable Costs (Continued)

- Contributions and donations §200.434
  - Value of donated services or depreciation on property can be used to meet cost sharing or matching requirements
- Legal expenses related to claims against Federal government §200.435
- Entertainment §200.438
- Capital expenditures \$5,000 and greater §200.439
- Fines and penalties §200.441
- Fund raising & investment management §200.442



# Subpart E: Unallowable Costs (Continued)

- General government §200.444
  - Governor or chief executive of entity
  - Legislatures or governmental body
  - Judiciary Branch
  - Prosecutorial activities, fire and police
- Goods and services for personal use §200.445
- Idle facilities §200.445
  - Allowable if necessary to meet workload fluxuations
  - Allowable for 1 year if necessary at time acquired
- Lobbying §200.450
- Losses on other awards or contracts §200.451





# Subpart E: Unallowable Costs (Continued)

- Interest on borrowed capital §200.449
  - Allowable if to acquire capital assets
  - Allowable in fiscal years beginning after Jan 1, 2016 if to acquire intangible assets, including patents & software.
- Country club, social or dining memberships §200.454
  - Memberships in orgs with primary purpose of lobbying.
- Selling and marketing §200.467
- Self-assessed taxes that disproportionately impact federal programs §200.467
- Termination costs applicable to sponsored agreements (B.41)



# Subpart E: Personal Services Compensation §200.430

- Must be reasonable
  - Merit system
  - Labor market compensation survey
  - Incentive pay OK
- Fringe benefits §200.431
  - Unused leave (termination or retirement) as indirect only
  - Leave accrual - lesser of accrued or funded



# Subpart E: Personal Services Compensation §200.430

- Post Retirement Health Benefits §200.431
  - Must be treated as an indirect cost
- Severance pay §200.431
  - Must be treated as an indirect cost
  - Mass severance must have prior approval



# Subpart E: Documentation of Personal Services Costs §200.430

- Documentation requirements are similar to A-87 rules, but less proscriptive
- Records must accurately reflect the work performed
  - Internal controls assure that charges are accurate, allowable and properly allocated
  - Incorporated into official records
  - Reflect total activity for which employee is compensated
  - Comply with established accounting policies & practices
  - Budget estimates OK for interim accounting purposes if trued up
  - Support the distribution of costs among specific activities if they work on multiple activities



# Subpart E: Documentation of Personal Services Costs §200.430

- Types of multiple activities
  - More than one federal award
  - Federal award and a non-federal award
  - An indirect activity and a direct activity
  - Two or more indirect activities allocated differently
  - An unallowable activity and a direct or indirect activity
- Signed personnel activity reports no longer required unless your existing system doesn't meet the criteria outlined in §200.430



# Subpart E: Documentation of Personal Services Costs §200.430

- Personnel Activity Reports
  - After the fact distributions
  - Must account for total activities
  - Prepared at least monthly
  - Must coincide with one or more pay periods
  - Must be signed by employee



# Subpart E: Documentation of Personal Services Costs §200.430

- Substitute systems
  - Random moment sampling
  - “Rolling” Time studies
  - Case counts
  - Other quantifiable measures
  - Must have prior approval



# Subpart E: Depreciation §200.436

- Use Charge no longer allowed
- Capitalization policy
  - Lesser of government policy or \$5,000
- Costs to be excluded
  - Land
  - Portion borne or donated by Federal government
  - Any portion provided as a matching requirement
- Depreciation methods
  - Straight line
  - Other must be documented
- Physical inventories every two years





## **Subpart E: Idle Facilities §200.446**

- All associated costs of idle facilities are unallowable
- Exception
  - Necessary to meet fluctuations in workload
  - Changes in program requirements
  - Idle not to exceed 1 year



## **Subpart E: Interest §200.449**

- Bona fide third party external to governmental unit
- Building completed after October 1, 1980
- Equipment after September 1, 1995



## **Subpart E: Proposal Costs \$200.460**

- Costs are allowable
- Normally to be treated as a government-wide or department indirect cost



## Subpart E: Space Rental §200.465

- Normally allowable
- Must be reasonable rates
- Rates must be determined as if governmental unit continued to own for:
  - Sale and lease-back Arrangements
  - Less than arms length leases



## **Appendix V: State/Local Government Central Service Cost Allocation Plans**

- Procedures and requirements for developing and submitting SWCAP or City/County-wide CAP
- Scope of CAP
- Submission requirements
- Documentation requirements
- Negotiation and approval process
- Other policies



## **Appendix V: State/Local Government Central Service Cost Allocation Plans**

- Include all central service costs to be claimed
  - Section I - Allocated
  - Section II - Billed
- Omitted costs will not be reimbursed



# Appendix V: State/Local Government Central Service Cost Allocation Plans

## ■ States

- Submitted annually to CAS of DHHS
- Submitted within six months after year end

## ■ Local Governments

- Submit annually if ‘major local government’
  - >\$100m in direct federal awards
- Prepare and retain for audit if not ‘major’
- Where local govt only receives federal money as subrecipient, the pass-through entity is responsible for monitoring the subrecipient’s plan.



# Appendix V: State/Local Government Central Service Cost Allocation Plans

- General Documentation Requirements
  - Organization chart
  - Comprehensive Annual Financial Report
  - Audited financial statements
  - Certificate of Cost Allocation Plan
    - All allocated cost are allowable in accordance with Circular
    - All costs are properly allocable to Federal awards
    - Consistent treatment of costs
    - Must be signed by an official who is authorized to legally bind the non-Federal entity. § 200.415





# Appendix V: State/Local Government Central Service Cost Allocation Plans

- Documentation required for allocated services
  - Brief description of the service
  - Identification of the unit rendering the service
  - Operating agencies receiving the service
  - Items of expense included in the cost
  - Method used to distribute the cost
  - Summary schedule of allocations to benefited agencies



# Appendix V: State/Local Government Central Service Cost Allocation Plans

- Documentation for Billed Services
  - Internal service funds with budget of >\$5M
  - Self-insurance funds
  - Fringe benefits
  - Other billed services
- Service descriptions, billing methodology, balance sheet, income statement, revenue by customer, Fund balance reconciliation



# Appendix V: State/Local Government Central Service Cost Allocation Plans

- Negotiation & Approval
  - Timely basis
  - Review within six months of receipt
  - Issuance of a central service cost allocation negotiation agreement
  - Applicable to all Federal programs



# Appendix V: State/Local Government Central Service Cost Allocation Plans

## ■ Other Policies

- Each billed central service activity must maintain profit/loss financial statements.
- Each billed service allowed 60 day working capital reserve.
- Billed services required to annually adjust rates
- Requirements related to “carry-forward” adjustments.
- Record retention same as Subpart D of 2 CFR Part 200.



## **Appendix VI: Public Assistance Cost Allocation Plans**

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



## **Appendix VII: State/Local Government Indirect Cost Proposals**

- Procedures and requirements for developing and submitting an agency/departmental ICRP
- An ICRP should include
  - Information on department
  - Schedules identifying and documenting the department's indirect costs
  - Schedules documenting the calculation of one or more indirect cost rates
  - Signed certificate of indirect costs



# Appendix VII: State/Local Government Indirect Cost Proposals

## ■ Submission Requirements

- Submission to federal cognizant agency required if receive more than \$35M in direct federal funding
  - Submitted within six months after year end
- Departments receiving less direct federal funding must prepare ICRP, but just retain for audit
- Pass-through agencies are responsible for negotiating and/or monitoring the ICRP of their subrecipients



# Appendix VII: State/Local Government Indirect Cost Proposals

## ■ Documentation Requirements

### ■ Rate development information

- Subsidiary work sheets and other relevant data on indirect costs
- Work sheets should be referenced and reconciled to agency financial statements
- Work sheets providing the calculation of the indirect cost rate(s)





# Appendix VII: State/Local Government Indirect Cost Proposals

## ■ Documentation Requirements

- A copy of the financial data upon which the ICRP is based – may require one or all of the following:
  - Audited financial statements
  - Comprehensive annual financial report
  - Executive budget, accounting and/or payroll reports
- Amount of Federal costs included in direct cost base.
- Organizational information
  - Organizational chart
  - Functional statements noting the duties and responsibilities of all units
- Certificate of Indirect Costs
  - Must be signed by an official who is authorized to legally bind the non-Federal entity. § 200.415



# Appendix VII: State/Local Government Indirect Cost Proposals

- Types of Indirect Cost Rates
  - Predetermined Rate/Agreement
    - Usually established for 2 to 4 years
    - Not subject to adjustment
  - Fixed with Carry-Forward Agreement
    - Established for 1 year
    - Requires reconciliation to actual
    - Difference carried forward to subsequent year



# Appendix VII: State/Local Government Indirect Cost Proposals

- Types of Indirect Cost Rates
  - Provisional
    - Temporary rate
    - Requires annual reconciliation to actual
    - Adjustments must be made to applicable period for each Federal award
    - Very difficult to administer
  - Final
    - Based on actual cost of a period
    - Used to close out provisional rates



# Appendix VII: State/Local Government Indirect Cost Proposals

## ■ Types of Indirect Cost Rates

### ■ Flat 10% MTDC Rate §200.414

- any non-Federal entity that has never received a negotiated indirect cost rate (and that has less than \$35M in federal funding may elect to charge a de minimis rate of) 10% of modified total direct costs (MTDC) which may be used indefinitely.

### ■ Interagency Services (10%)

- Department does not have an approved rate
- Only on salary and wage costs

### ■ U.S. Department of Education

- Unrestricted – In accordance with OMB Circular A-87
- Restricted – Excludes following
  - Executive officer and their immediate office
  - Staff reporting directly to Executive Officer
  - Facility related costs



# Appendix VII: State/Local Government Indirect Cost Proposals

## ■ Rate Development Methods

### ■ Simplified – Single Rate for Department

- Agency-wide costs must benefit all programs
- Division costs must be consistent
- Usually a single indirect cost rate for the agency

### ■ Multiple allocation base – Multiple rates

- Agency indirect cost benefit varies
- Division indirect cost varies
- Different allocation base for each cost pool
- Cost pools only allocated to benefiting units
- Preparation of an indirect cost allocation plan
- Multiple rates

### ■ Special indirect cost rates



# Appendix VII: State/Local Government Indirect Cost Proposals

- Negotiation & Approval
  - Timely basis
  - Review within six months of receipt
  - Issuance of an indirect cost rate agreement
  - Applicable to all Federal programs



# Appendix VII: State/Local Government Indirect Cost Proposals

- Other Policies
  - Fringe benefit rates
  - Billed services



## 2 CFR Part 200: Conclusion

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