



50.20

Cost Allocation and Indirect Cost Recoveries

50.20.10

July 1, 2003

The purpose of these policies

This section establishes state policies and procedures governing cost allocation and indirect cost recoveries. The policies and procedures are built upon federal law and federal administrative regulation for federal funded situations and state law regarding interagency situations.

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Authority for these policies

This section is issued, as revised, pursuant to the authority granted to the Director of Financial Management to "... adopt and periodically update an accounting procedures manual" [RCW 43.88.160(1)].

50.20.30

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Applicability

This part is applicable and binding on all agencies of the state of Washington receiving, administering or expending federal assistance, unless otherwise exempted by federal or state law, and on all agencies involved in interagency situations. The Budget and Accounting Act (RCW 43.88.020) defines the term "Agency" to mean "Every state office, officer, each institution, whether educational, correctional, or other, and every department, division, board, and commission, except as otherwise provided..."

Agencies may request a waiver from complying with specific requirements of this chapter. Refer to Subsection 1.10.40 for information on how to request a waiver.

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Agencies must comply with the cost allocation and allowable cost principles in OMB circulars

The United States Office of Management and Budget (OMB) has published several circulars establishing uniform principles for determining the allowability of costs incurred by nonfederal entities expending federal awards. In addition, these circulars provide requirements for the

development and submission of cost allocation plans and indirect rate cost proposals. State agencies and institutions perform functions and activities that are either federally assisted or provide central service support to federally assisted programs or activities. As such, they are subject to provisions of the cost principle circular applicable to their activities.

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Which OMB circular applies?

50.20.50.a

Circular A-87 – Applies to **all state agencies and institutions, except** for:

- Public institutions of higher education.
- Publicly owned hospitals, and
- Other providers of medical care described in 50.20.50.d. below.

This circular establishes:

1. Principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts and other agreements with state and local governments and federally recognized Indian tribal governments;
2. Requirements for the development and submission of cost allocation plans and indirect rate cost proposals for these nonfederal entities;
3. Specific requirements on the distribution of state/local government central service costs, including provisions on the development and submission of state/local government central service cost allocation plans; and
4. Requirements for the development and submittal of state public assistance cost allocation plans.

50.20.50.b

Circular A-21 - Establishes principles for determining costs applicable to grants, contracts and agreements with **institutions of higher education**. This Circular also provides requirements for the development and submission of facilities and administration cost proposals (indirect).

50.20.50.c

Circular A-122 - Establishes principles for determining costs of grants, contracts and other agreements with **nonprofit organizations**. Colleges and universities, covered by Circular A-21, are specifically excluded from coverage by this circular. The Circular also provides requirements for the development and submission of indirect cost rate proposals.

- 50.20.50.d Federal Awards administered by **publicly-owned hospitals or other providers of medical care** are subject to requirements promulgated by the sponsoring federal agencies.
- 50.20.50.e **Entities receiving sub-grants of federal awards** are subject to those federal cost principles applicable to the subrecipient organization.
- 50.20.50.f **All central service and department/agency costs** that are allocated or billed to educational institutions, hospitals or other providers of medical care or services by other state or local departments or agencies are subject to Circular A-87.

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The Statewide Central Services Cost Allocation Plan (SWCAP) is used to identify and assign central service costs

Most governmental units provide certain services such as accounting, computing, payroll services, motor transportation, etc., to operating agencies on a centralized basis. Since federally supported awards are performed within the individual operating agencies, a process is necessary to identify these central service costs and assign them to benefited activities on a reasonable and consistent basis. The federally reviewed and approved, statewide, central service cost allocation plan provides that process.

The Accounting Division of OFM prepares, administers and submits to the federal government an annual central services cost allocation plan for the state (SWCAP). One part of the plan justifies and reconciles the activities of the billed state central services (internal service, self-insurance and fringe benefit). A second part allocates the allowable costs of other state central services benefiting agencies expending federal awards.

Two basic methods are used in the plan to assign appropriate costs of centralized services to operating agencies or their programs:

- **Billed Central Services** where allowable costs are billed to benefited agencies and/or programs on an individual fee for service or similar basis. Self-insurance and fringe benefit activities are other central service activities that bill customers for services or benefits provided.
- **Allocated Central Services** where services that benefit operating agencies and/or programs are not billed on a fee for service or similar basis but allowable costs are allocated to benefited agencies on some reasonable basis.

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Responsibilities of central, billed internal service activities

State of Washington central, billed internal service activities have the following responsibilities:

1. Understand and adhere to the requirements of Circular A-87, particularly those provisions relating to allowable amounts of working capital and annual adjustments between revenue and allowable actual costs.
2. Ensure that the following information is made available for inclusion in the state plan:
 - A current narrative description of the activity;
 - A description of the procedures (methodology) used to charge activity costs to users including how billing rates are determined and a schedule of current rates; and
 - A summary of costs billed to users for the most recent complete state fiscal year, by user.

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Responsibilities of central, self-insurance fund activities

State of Washington central, self-insurance fund activities have the following responsibilities:

1. Understand and adhere to the requirements of Circular A-87.
2. Ensure that the following information is made available for inclusion in the state central services plan:
 - Summaries of billings and claims paid for the latest complete state fiscal year;
 - A narrative description of the types of risks covered;
 - An explanation of how the level of fund contributions are determined, including a copy of the actuarial report (with the assumptions used) if the contributions are determined on an actuarial basis;
 - A description of the procedures used to charge or allocate fund contributions to benefited activities; and

- An identification and explanation of reserve levels maintained in excess of claims [1] submitted and adjudicated but not paid, [2] submitted but not adjudicated, and [3] incurred but not submitted.

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Responsibilities of central, fringe benefits activities

State of Washington central, fringe benefits activities, including pension and post-retirement health insurance plans, have the following responsibilities:

1. Understand and adhere to the requirements of Circular A-87.
2. Ensure that the following information is made available for inclusion in the state central services plan:
 - Description of fringe benefits provided to covered employees;
 - Current fringe benefit policies;
 - Procedures used to charge or allocate the costs of benefits to benefited activities; and
 - For pension or post-retirement health insurance plans [1] the government's unit funding policies, e.g., legislative bills, trust agreements, or state-mandated contribution rules, if different from actuarially determined rates [2] the pension plan's costs accrued for the year [3] the amount funded and dates of funding [4] a copy of the current actuarial plan (including the actuarial assumptions) and, if applicable, [5] the plan trustee's report and/or a schedule showing the value of interest costs associated with late funding.

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Responsibilities of agencies and institutions administering or expending federal awards

State of Washington operating agencies and institutions, administering or expending federal awards have the following responsibilities:

1. Unless prohibited by federal /state laws or regulations or formal funding limitations (refer to examples in Subsections 50.20.90.b & c), operating agencies are to include the fixed cost allocation from the approved, state central service cost allocation plan in their agency indirect cost/cost allocation pool.

2. Any indirect costs or cost allocation amounts recovered, as a result of a SWCAP cost allocation amount being included in an agency's indirect rate or cost allocation plan, are to be deposited as a recovery in the state General Fund 001 utilizing revenue source 0448. Refer to examples in Subsection 50.20.90.

50.20.85

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Indirect costs in interagency situations

50.20.85.a

RCW 39.34.130 states that: "...the full costs of a state agency incurred in providing services or furnishing materials to or for another agency under Chapter 39.34 RCW or any other statute shall be charged to the agency contracting for such services or materials and shall be repaid and credited to the fund or appropriation against which the expenditure originally was charged." For these purposes, full costs shall generally include direct and indirect costs.

50.20.85.b

The nature of interagency activity varies greatly ranging from providing a service or product with established indirect costs components to the simple sharing of usage, and/or rental, costs for a common piece of equipment. As such, parties to interagency agreements should include specific language in the text of their agreements to determine and define allowable indirect costs.

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Central Services Cost Allocation Illustrations

50.20.90.a

EXAMPLE 1 - Agency and Central Services Indirect Costs are Reimbursable**Assumptions**

The agency indirect cost plan included the following:

<u>Item</u>	<u>Amount</u>	<u>Indirect Rate</u>
Agency Direct Costs	\$1,000,000	22% TDC
Agency Indirect Costs	<u>220,000</u>	
Total Agency Costs	1,220,000	
Central Services Allocation	<u>30,000</u>	3% TDC
Total Cost Per Plan	<u>1,250,000</u>	25% TDC

The agency's indirect rate is 25 percent of Total Direct Costs (TDC), computed as follows:

Agency indirect costs of \$220,000 plus State Central Services Allocation of \$30,000 is total indirect cost of \$250,000 divided by direct costs of \$1,000,000 is 25 percent TDC rate.

The 25 percent TDC rate computed per the agency's annual indirect cost plan has been approved by the agency's cognizant federal grantor agency.

The agency requests payment from its federal grantor agency for work performed under a federal grant activity. The payment request is computed as follows:

Direct Cost Reimbursement	\$50,000
Indirect Costs at 25% Rate	<u>12,500</u>
Payment Requested	<u>\$62,500</u>

Procedure - Revenue Source Coding

When the \$62,500 is received from the federal grantor agency, the state agency is to identify and code the federal revenue as follows:

<u>Reimbursement For</u>	<u>Amount</u>	<u>Account</u>	<u>Source</u>	<u>Sub-Source</u>
Agency Direct Costs	\$50,000	xxx	xxxx	xxxxxxx
Agency Portion of Indirect Costs	11,000	xxx	xxxx	xxxxxxx
Central Services Portion of Indirect Costs	<u>1,500</u>	001	0448	010000
Total Revenue	<u>\$62,500</u>			

The receipt by the agency of \$50,000 for agency direct costs and \$11,000 for agency indirect costs represents the recovery of agency expenditures incurred in the performance of the grant or contract. These amounts represent revenue of the agency's operating fund. However, the receipt of \$1,500 for Central Services Costs represents recovery of State Central Services furnished without cost to the agency, and thereby represents revenue to the state General Fund.

50.20.90.b

EXAMPLE 2 - Only Agency Indirect Costs are Reimbursable

Assumptions

Circular A-87 states that federal agencies are to reimburse state agencies for their overhead or indirect costs, except where restricted or prohibited by law.

The facts in this example are the same as in Example 1 above, except that federal law limits the reimbursement for indirect costs for a particular grant program to 20 percent of direct costs. The agency is thus limited to a payment of \$60,000 for direct and indirect costs from the federal grantor agency for work performed under a federal grant activity. The agency will receive \$50,000 for agency direct costs and \$10,000 (20 percent x \$50,000) for agency indirect costs.

Procedure - Revenue Source Coding

When the \$60,000 is received from the federal grantor agency, the state agency is to identify and code the federal revenue as follows:

<u>Reimbursement For</u>	<u>Amount</u>	<u>Account</u>	<u>Source</u>	<u>Sub-Source</u>
Agency Direct Costs	\$50,000	xxx	xxxx	xxxxxxx
Agency Indirect Costs	<u>10,000</u>	xxx	xxxx	xxxxxxx
Total Revenue	<u>\$60,000</u>			

Since the allocation for State Central Services did not result in increasing the allowable indirect amount because of the 20 percent limitation, the entire indirect cost recovery is to be coded to the agency's applicable operating fund and federal source code.

50.20.90.c

EXAMPLE 3 - Indirect Costs are Partially Reimbursable

Assumptions

The facts again are the same as in Example 1, except that a federal law limits indirect reimbursement for a particular grant program to 24 percent of direct costs. The agency is thus limited to a payment of \$62,000 for direct and indirect costs from the federal grantor agency for work performed under a federal grant activity. The agency will receive \$50,000 for direct costs and \$12,000 (24 percent x \$50,000) for indirect costs.

Procedure - Revenue Source Coding

When the \$62,000 is received from the federal grantor agency, the state agency is to identify and code the federal revenue as follows:

<u>Reimbursement For</u>	<u>Amount</u>	<u>Account</u>	<u>Source</u>	<u>Sub-Source</u>
Agency Direct Costs	\$50,000	xxx	xxxx	xxxxxxx
Agency Indirect Costs	11,000	xxx	xxxx	xxxxxxx
Central Services Allocation	<u>1,000</u>	001	0448	0100000
Total Revenue	<u>\$62,000</u>			

Since the state central services allocation increases the allowable indirect rate from 22 percent to 24 percent, the two percent increase (\$1,000) in recovery represents the reimbursement to the state General Fund for state central services allocated to the state agency.