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Cost Allocation Services

SWCAPS/LOCAPS, PACAPS, INDIRECT COST RATES & UNIFORM COST PRINCIPLES

August 5, 2015



U.S. Department of Health and Human Services

Presentation Outline

- **Cost Allocation Services (CAS)**
- **SWCAP/ LOCAPs / PACAPs / Indirect Cost Rates**
- **Cross Cutting Audit Findings**
- **Typical Cross Cutting Cash Recoveries**
- **The New Uniform Regulations – Cost Principles**
- **Useful Websites and Documents**

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is now

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CAS Services:

State and local Cost Allocation Plans (SWCAPs, LOCAPs)

Public Assistance Cost Allocation Plans (PACAPs)

Indirect Cost Rate Agreements:

State and local government departments

Colleges and Universities

Nonprofit Organizations

Hospitals

Presentation consists of material from:

US Department of Health and Human Services version

- **45 CFR Part 75 - Federal Register of December 19, 2014**
 - **became effective December 26, 2014.**
- **45 CFR Part 95 General Administration – Grant Programs**

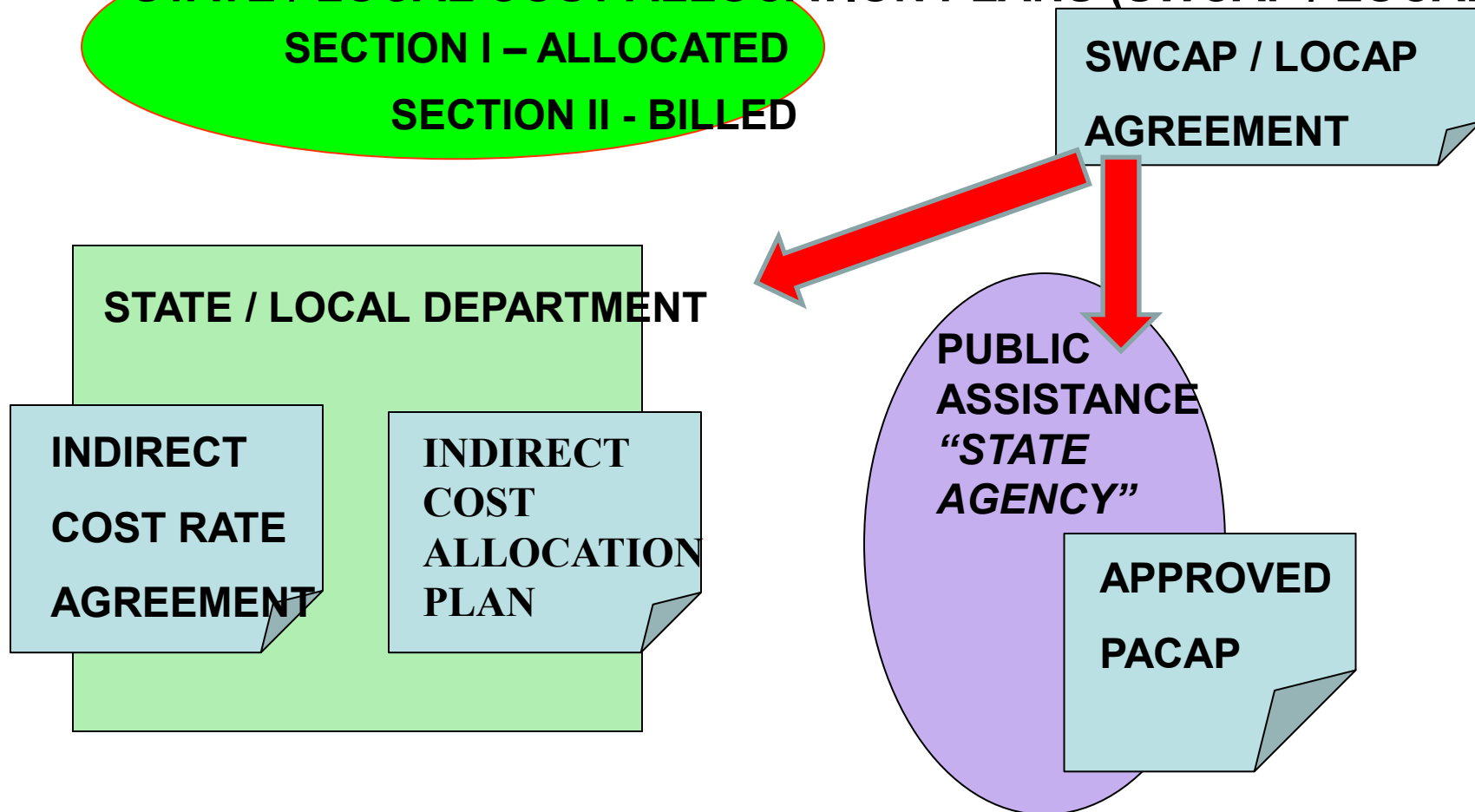
Preambles from Federal Registers of:

- **December 26, 2013**
- **December 19, 2014**

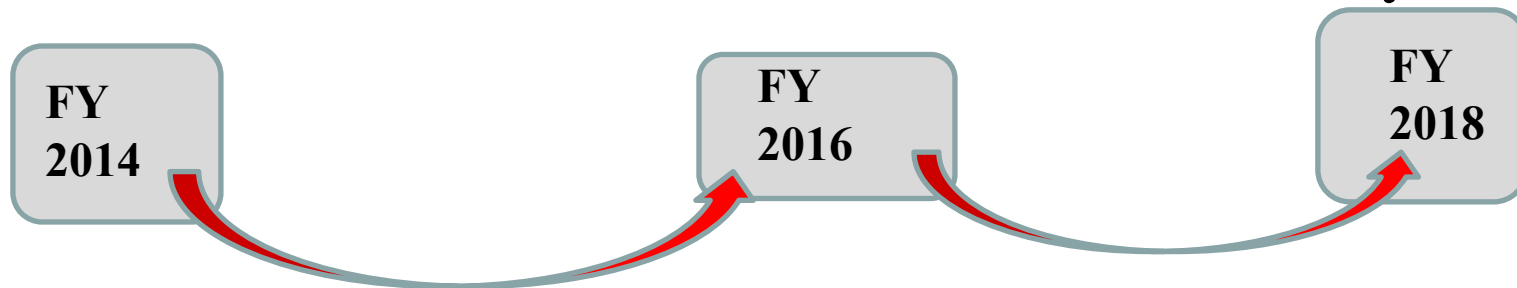
Frequently Asked Questions – Updated November 2014

Cost Allocation in State and Local Governments:

STATE / LOCAL COST ALLOCATION PLANS (SWCAP / LOCAP)
SECTION I – ALLOCATED
SECTION II - BILLED



SWCAP/LOCAP & Indirect Cost Rate Annual Cycles:



SWCAPs / LOCAPs and Departmental indirect cost rate proposals are submitted in 2015 and 2017 based on the prior Fiscal Year's actual costs.

- Same cycle is used for odd number fiscal years**
- Proposal is based on State's fiscal year not Federal or award period**

New Uniform Requirements provide alternatives for Departmental indirect cost rate proposals.

Cost Allocation in State and Local Governments:

STATE / LOCAL COST ALLOCATION PLANS (SWCAP / LOCAP)

SECTION I – ALLOCATED

SECTION II - BILLED

SWCAP / LOCAP

AGREEMENT

SWCAP/LOCAP Agreement Format

COST ALLOCATION AGREEMENT STATE AND LOCAL GOVERNMENTS

EIN # 123456789

DEPT/AGENCY:

State of XXXXXXXXX

DATE: May 24, 2012

FILING REF: The preceding

Agreement was dated

March 1, 2011

SECTION I: ALLOCATED COSTS

The central service costs listed in Exhibit A, attached, are approved on a Fixed basis and may be included as part of the costs of the State/local departments and agencies indicated during the fiscal year ended June 30, 2012 for further allocation to Federal grants, contracts, and other agreements performed at those departments and agencies.

STATE OF XXXX EXHIBIT A

FY 2012 STATEWIDE COST ALLOCATION PLAN

SUMMARY OF FIXED ALLOCATIONS

FISCAL YEAR ENDING JUNE 30, 2012

DEPARTMENTS	BUDGET & FINANCING	HUMAN RESOURCES	TOTAL
GOVERNORS OFF.	\$ (3,469)	\$ 421	\$ (3,048)
BUR. OF ADMIN.	4,196	769	4,965
SOCIAL SERV.	17,738	3,579	21,317
HEALTH DEPARTMENT	10,045	1,732	11,777
LABOR DEPT.	4,056	1,426	5,482
TRANSPORT.	44,070	4,890	48,960
EDUCATION	35,971	854	36,825
HIGHER EDUCATION	39,574	-	39,574
CORRECTIONS	15,138	3,500	18,638
HUMAN SERVICES	34,442	7,700	42,142
LEGISLATURE	927	499	1,426
ATTORNEY GENERAL	2,673	487	3,160
SEC. OF STATE	450	71	521
ST. TREAS./INV. C.	2,584	64	2,648
STATE AUDITOR	<u>303</u>	<u>39</u>	<u>342</u>
TOTAL ALL AGENCIES	<u>\$ 208,698</u>	<u>\$ 25,731</u>	<u>\$ 234,429</u>

SWCAP/LOCAP Section I Allocated Costs:

Estimated for the future year

- **Typically use actual costs of prior year**
- **NOT a delayed recovery of prior year's costs**

Prior year's Exhibit A estimated costs compared to the year's actual cost and the difference is added / subtracted from the future years cost estimated to calculate the amounts in the future year's Exhibit A being allocated to Departments.

Transfer of central services to/from Allocated to Billed Services require separate calculations to prevent overcharges.

Central Service Departments typically do not collect cash from Departments for Section I costs, but some do.

SWCAP Agreement Format (Continued)

SECTION II: BILLED COSTS

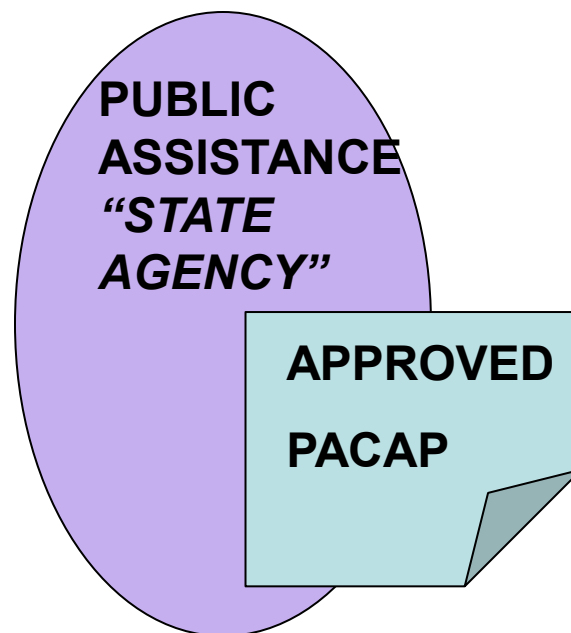
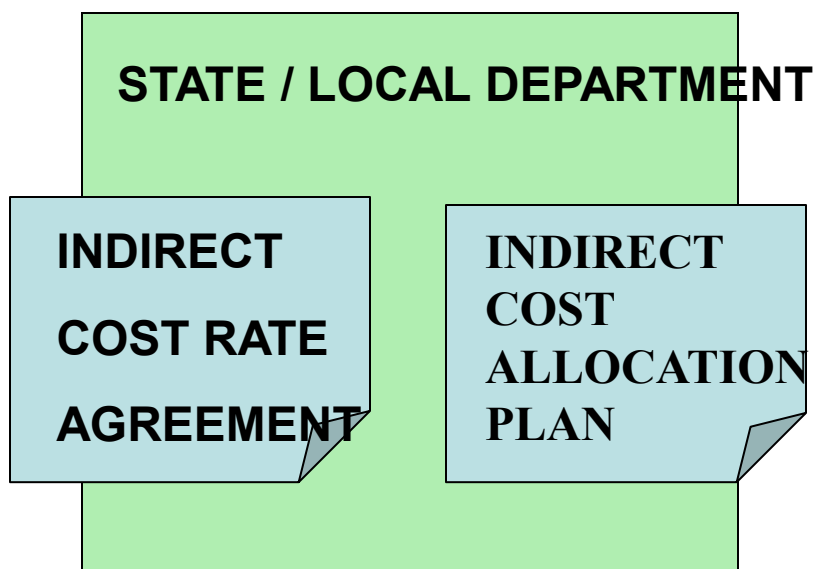
In addition to Section I, which provides for services furnished but not billed, the services listed below are furnished and billed to departments and agencies:

- 1. Comptroller of the Treasury – State Audit**
- 2. Risk Management Fund**
- 3. Consolidated Retirement System**
- 4. Finance and Administration - Division of Accounts**
- 5. Finance and Administration – Employee Group Insurance**
- 7. Office for Information Resources**
- 8. General Services – Facilities Revolving Fund**
- 9. General Services - Motor Vehicle Management**
- 10. General Services - Postal Services**
- 11. General Services – Printing**
- 12. General Services – Purchasing**
- 13. General Services – Real Estate Asset Management**
- 14. General Services - Warehousing and Distribution**
- 15. Department of Human Resources**

SWCAP / LOCAP SECTION II BILLED SERVICES:

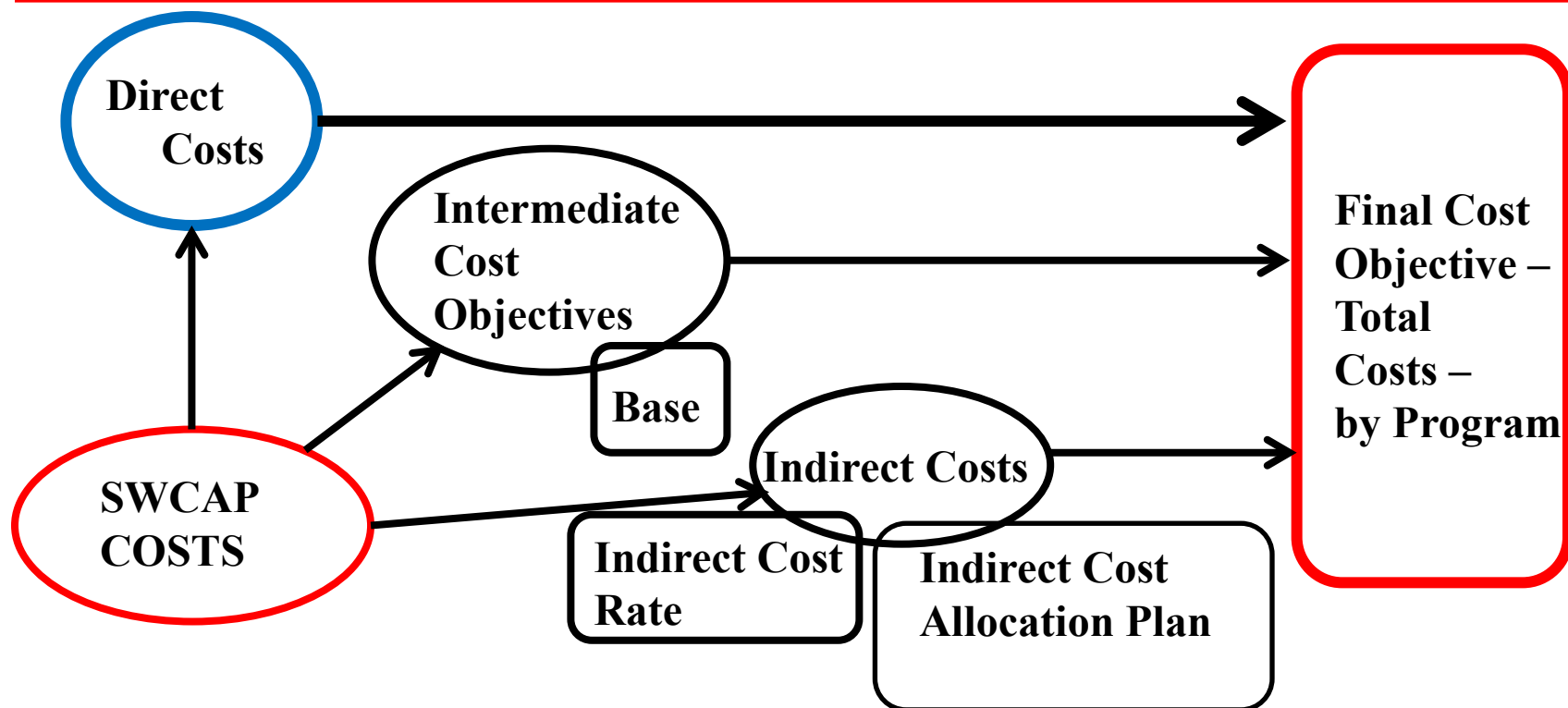
- **List of State / Local central service providers charging for their services**
- **Billing rates are not listed in the SWCAP agreement**
- **Cost Allocation Services does not provide prior approval of specific rates**
- **Cost Allocation Services review is a “post” review to**
 - **verify the State / Local government took Cost Principle compliant actions to adjust billing rates. (unlike Section I)**
 - **review for other actions that violate the Cost Principles for which repayments are due to the Federal government and/or other corrective action is needed**

Cost Allocation in State and Local Governments:

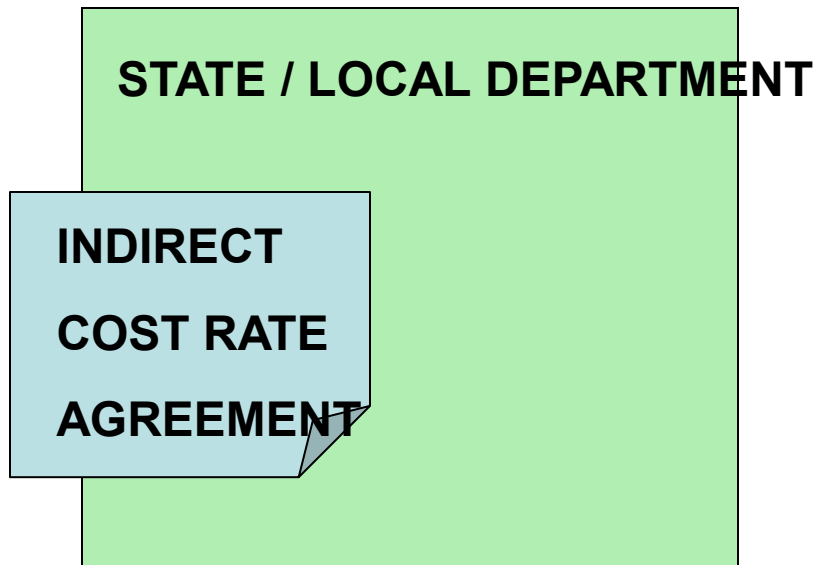


State/Local Departmental Process of Allocation

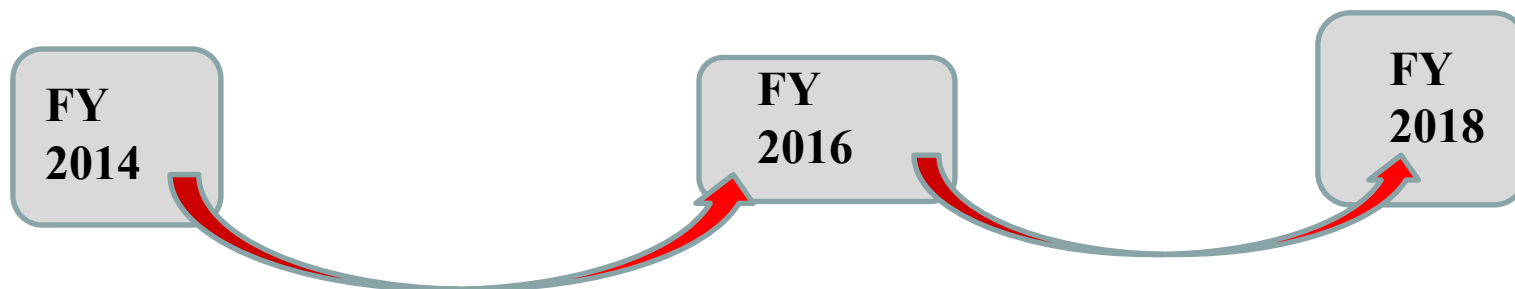
Use of Cost Objectives



Cost Allocation in State and Local Governments:



Departmental Indirect Cost Rate Annual Cycles:



The state department submits indirect cost rate proposal based on the Fiscal Year's actual costs. CAS issues a new rate for the future year.

- **Same cycle is used for odd number fiscal years**
- **Proposal is based on State's fiscal year not Federal or award period**

New Uniform Requirements provide alternatives for Departmental indirect cost rate proposals.

Required Indirect Cost Rate Proposal Contents:

- **Audited financial statements or alternative**
- **Indirect rate calculation**
- **Reconciliation of AFS and proposed calculation**
- **Federal amount included in base**
- **First Proposal? Include copy of direct Federal grant award**
- **Equipment capitalization and useful life thresholds**
- **45 CFR Part 75 Appendix VII Certificate of Indirect Costs**

Typical Direct Cost Bases:

- **Total direct salaries & wages**
- **Total direct salaries & wages including all fringe benefits**
- **Modified Total Direct Costs (MTDC) -Total direct costs excluding capital expenditures, that portion of each subaward in excess of \$25K and flow-thru funds.**

NOTE:

Costs of unallowable activities which benefit from the indirect cost pool should be included in the base.

Indirect Cost Rate Types:

- **Provisional / Final**

Cycle described on a previous slide

- **Fixed with carryforward**
- **Predetermined**
 - **Fixed Price Contract Issue**

Indirect Cost Rate Variations:

- **Single rate**

All programs

- **Multiple rates**

Specific program (s)

Specific organizational units of department

Physical locations of departmental activity

Indirect Cost Rate Variations: (continued)

Restricted rates –

- **Total indirect cost rate limit (e.g. 8%)**
- **Activity restrictions**
 - **Generally allowable indirect activities made unallowable for specific program**
 - **Generally allowable indirect activities removed from indirect cost pool and added to the indirect cost rate base**

Indirect Cost Rate Proposal – Rate Calculation:

Expense	AFS	Adj	DIRECT PROGRAMS			Indirect Costs
			Program A	All Other	Total Direct Costs	
Salaries and wages	\$ 1,327,638	\$ -	\$ 140,831	\$ 970,512	\$ 1,111,343	\$ 216,295
Fringe benefits	\$ 245,434	\$ -	\$ 28,138	\$ 174,081	\$ 202,219	\$ 43,215
Subtotal labor	\$ 1,573,072	\$ -	\$ 168,969	\$ 1,144,593	\$ 1,313,562	\$ 259,510
Subawards (3)	\$ 245,420	\$ (170,420)	\$ -	\$ 75,000	\$ 75,000	
Other Costs	\$ 634,892	\$ -	\$ 59,486	\$ 367,862	\$ 427,348	\$ 207,544
Depreciation/Use allowance	\$ -	\$ 41,582	\$ -	\$ -	\$ -	\$ 41,582
Equipment rental	\$ 11,448	\$ -	\$ 592	\$ 5,478	\$ 6,070	\$ 5,378
Equipment / Capital	\$ 58,215	\$ (58,215)	\$ -	\$ -	\$ -	\$ -
Postage	\$ 3,901	\$ -	\$ -	\$ -	\$ -	\$ 3,901
SWCAP	\$ -	\$ 42,142	\$ -	\$ -	\$ -	\$ 42,142
TOTAL	\$ 2,526,948	\$ (144,911)	\$ 229,047	\$ 1,592,933	\$ 1,821,980	\$ 560,057

Calculation of Rates:

Base: Direct Salaries & Wages excluding fringe benefits

	Indirect Costs		\$ 560,057		
	Direct Costs		\$ 1,111,343	=	50.4%

Base: Direct Salaries & Wages including fringe benefits

	Indirect Costs		\$560,057		
	Direct Costs		\$1,313,562	=	42.6%

Base: Modified Total Direct Costs (MTDC)

	Indirect Costs		\$560,057		
	Direct Costs		\$1,821,980	=	30.7%

Calculation of MTDC Restricted Indirect Cost Rate – XYZ Program:

Expense	Total Direct Costs	Indirect Costs	Indirect Cost reductions	Indirect Cost moved to Direct Costs	Modified Total Direct Costs	Indirect Costs
Salaries and wages	\$ 1,111,343	\$ 216,295	\$ 67,324	\$ -	\$ 1,111,343	\$ 148,971
Fringe benefits	\$ 202,219	\$ 43,215			\$ 202,219	\$ 43,215
Subtotal labor	\$ 1,313,562	\$ 259,510			\$ 1,313,562	\$ 192,186
Subawards (3)	\$ 75,000	\$ -			\$ 75,000	\$ -
Other Costs	\$ 427,348	\$ 207,544		\$ 29,648	\$ 456,996	\$ 177,896
Depreciation/Use allowance	\$ -	\$ 41,582			\$ -	\$ 41,582
Equipment rental	\$ 6,070	\$ 5,378			\$ 6,070	\$ 5,378
Equipment / Capital	\$ -	\$ -			\$ -	\$ -
Postage	\$ -	\$ 3,901			\$ -	\$ 3,901
SWCAP	\$ -	\$ 42,142			\$ -	\$ 42,142
Total	\$ 1,821,980	\$ 560,057	\$ 67,324	\$ 29,648	\$ 1,851,628	\$ 463,085

Indirect Costs / MTDC = Restricted Rate

\$ 463,085 / \$ 1,851,628 = 25%

Indirect Cost Rate Agreement format:

STATE AND LOCAL GOVERNMENTS RATE AGREEMENT

EIN: [REDACTED]

DATE: 07/30/2013

ORGANIZATION: [REDACTED]

FILING REF.: The preceding agreement was dated 11/20/2012

Note: Rates for FYE 6/30/2013 were negotiated in previous review.

The rates approved in this agreement are for use on grants, contracts and other agreements with the Federal Government, subject to the conditions in Section III.

SECTION I: INDIRECT COST RATES

RATE TYPES: FIXED FINAL PROV. (PROVISIONAL) PRED. (PREDETERMINED)

EFFECTIVE PERIOD

<u>TYPE</u>	<u>FROM</u>	<u>TO</u>	<u>RATE (%)</u>	<u>LOCATION</u>	<u>APPLICABLE TO</u>
Final	7/1/2011	6/30/2012	25.0%	On Site	XYZ Program – Restricted rate
Final	7/1/2011	6/30/2012	30.7%	On Site	All Other Programs
Prov	7/1/2012	6/30/2013	23.7%	On Site	XYZ Program – Restricted rate
Prov	7/1/2012	6/30/2013	28.4%	On Site	All Other Programs
Prov	7/1/2013	Until Amended	Use same rates and conditions as those cited for FYE 6/30/2012		

Base: Total direct costs **excluding** capital expenditures (building, individual items of equipment, alterations and renovations), that portion of each subaward in excess of \$25,000 and flow-through funds.

ORGANIZATION: [REDACTED]
AGREEMENT DATE: 8/1/2012

SECTION II: SPECIAL REMARKS

TREATMENT OF FRINGE BENEFITS:

The fringe benefits are specifically identified to each employee and are charged individually as direct costs. The directly claimed fringe benefits are listed below.

TREATMENT OF PAID ABSENCES

Vacation, holiday, sick leave pay and other paid absences are included in salaries and wages and are claimed on grants, contracts and other agreements as part of the normal cost for salaries and wages. Separate claims are not made for the cost of these paid absences.

Equipment Definition -

Equipment means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost of \$2,500 or more per unit.

FRINGE BENEFITS:

FICA

Retirement

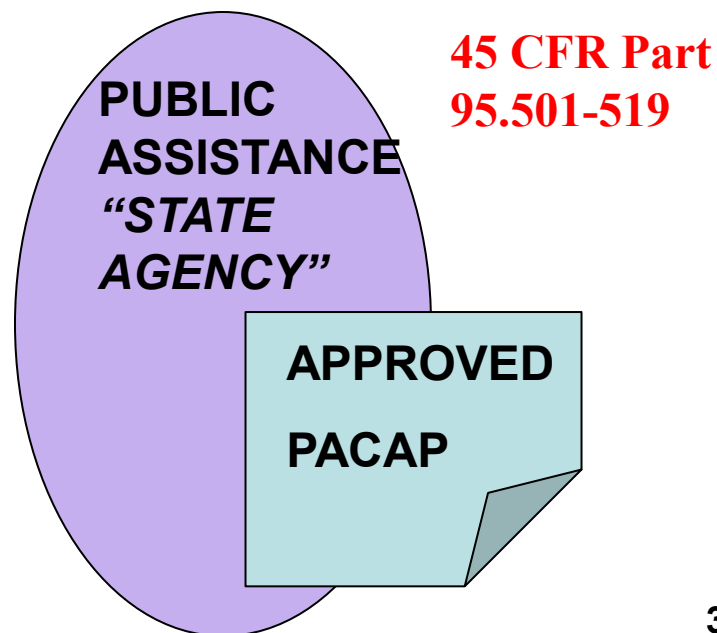
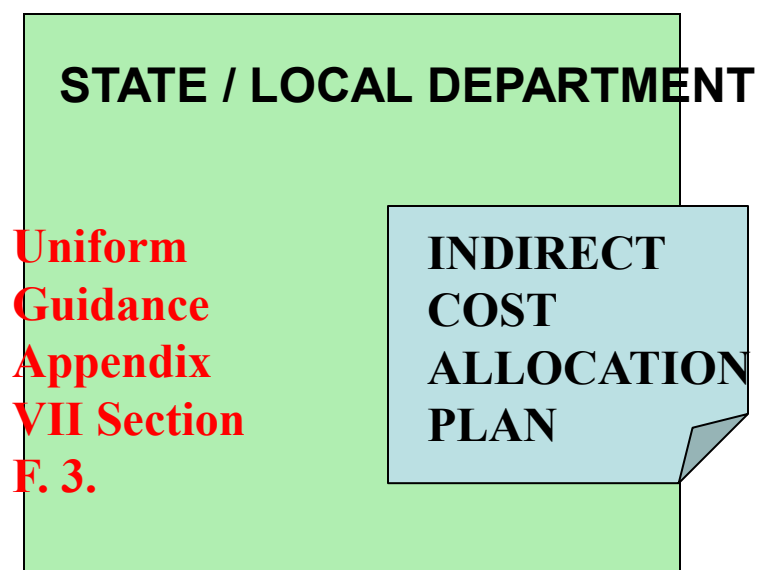
Worker's Compensation

Unemployment Insurance

Group Insurance

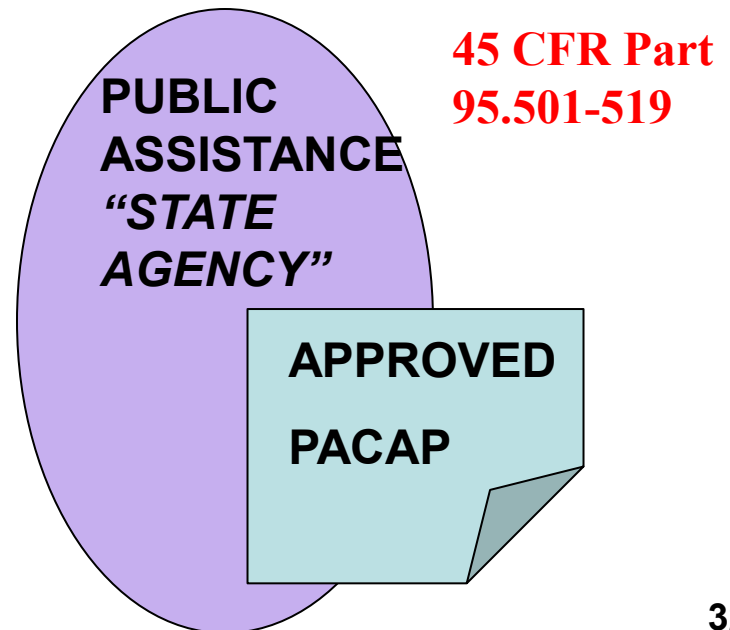
Cost Allocation in State and Local Governments:

NARRATIVE PLANS NOT \$\$\$\$\$\$\$



Cost Allocation in State and Local Governments:

NARRATIVE PLANS NOT \$\$\$\$\$\$\$



Public Assistance Cost Allocation Plans § 95.505 Definitions.

State agency means the State agency administering or supervising the administration of the State plan for any program cited in § 95.503. A State agency may be an organizational part of a larger State department that also contains other components and agencies. Where that occurs, the expression *State agency* refers to the specific component or agency within the State department that is **directly responsible for the administration of, or supervising the administration of, one or more programs identified in § 95.503.**

Public Assistance Cost Allocation Plans

§ 95.503 Scope.

This subpart applies to all State agency costs applicable to awards made under titles I, IV-A, IV-B, IV-C, IV-D, IV-E, X, XIV, XVI (AABD), XIX, and XXI, of the Social Security Act, and under the Refugee Act of 1980, title IV, Chapter 2 of the Immigration and Nationality Act (8 U.S.C. 1521 *et seq.*), and under title V of Pub. L. 96–422, the Refugee Education Assistance Act of 1980.

Title

I	Grants to States for Old-Age Assistance for the Aged
IV-A	Temporary Assistance for Needy Families - CFDA 93.558
IV-B	Child Welfare - 93.645
IV-C	Repealed
IV-D	Child Support Enforcement - 93.563

Public Assistance Cost Allocation Plans

§ 95.503 Scope. (continued)

Title

IV-E Foster Care – 93.658

IV-E Adoption – 93.659

X Grants to States for Aid to the Blind

XIV Grants to States for Aid to the Permanently and Totally Disabled

XVI Supplemental Security Income for the Aged, Blind, and Disabled

XIX Medical Assistance Program – 93.778

XXI State Children's Health Insurance Program – 93.767

Public Assistance Cost Allocation Plans

§ 95.505 Definitions.

State agency costs include all costs incurred by or allocable to the State agency **except** expenditures for financial assistance, medical vendor payments, and payments for services and goods provided directly to program recipients such as day care services, family planning services or household items as provided for under the approved State program plan.

Cost allocation plan means a **narrative** description of the **procedures** that the State agency will use in **identifying, measuring, and allocating all state agency costs** incurred in support of all programs administered or supervised by the State agency.



Public Assistance Cost Allocation Plans

§ 95.507 Plan requirements.

- (a) The State shall submit a cost allocation plan for the State agency as required below to the Director, Division of Cost Allocation (DCA), in the appropriate HHS Regional Office. The plan shall:
- (1) Describe the procedures used to identify, measure, and allocate all costs** to each of the programs operated by the State agency;
 - (2) Conform to the accounting principles and standards prescribed** in Office of Management and Budget Circular A–87, and **other pertinent Department regulations and instructions**;

Public Assistance Cost Allocation Plans

§ 95.507 Plan requirements. (a): (continued)

- (3) **Be compatible with the State plan** for public assistance programs described in 45 CFR Chapter II, III and XIII, and 42 CFR Chapter IV Subchapters C and D; and
- (4) **Contain sufficient information in such detail to permit the Director, Division of Cost Allocation, after consulting with the Operating Divisions, to make an informed judgment on the correctness and fairness of the State's procedures for identifying, measuring, and allocating all costs to each of the programs operated by the State agency.**

Public Assistance Cost Allocation Plans

§ 95.507 Plan requirements. (continued)

(b) The cost allocation plan shall contain the following information:

- (1) An **organizational chart** showing the placement of each unit whose costs are charged to the programs operated by the State agency.
- (2) **A listing of all Federal and all non-Federal programs performed, administered, or serviced by these organizational units.**
- (3) **A description of the activities performed by each organizational unit** and, where not self-explanatory an explanation of the benefits provided to Federal programs.

Public Assistance Cost Allocation Plans

§ 95.507 Plan requirements. (b): (continued)

- (4) The **procedures used to identify, measure, and allocate all costs to each benefiting program and activity** (including activities subject to different rates of FFP).
- (5) The **estimated cost impact resulting from the proposed changes to a previously approved plan**. These estimated costs are **required solely to permit an evaluation of the procedures used for identifying, measuring, and allocating costs**. Therefore, **approval of the cost allocation plan shall not constitute approval of these estimated costs for use in calculating claims for FFP**. Where it is impractical to obtain this data, an alternative approach should then be negotiated with the Director, DCA, prior to submission of the cost allocation plan.

Public Assistance Cost Allocation Plans

§ 95.507 Plan requirements. (b): (continued)

- (6) A statement stipulating that wherever **costs are claimed for services provided by a governmental agency outside the State agency**, that they will be supported by a written agreement that includes, at a minimum
- (i) the specific service(s) being purchased,
 - (ii) the basis upon which the billing will be made by the provider agency (e.g. time reports, number of homes inspected, etc.) and
 - (iii) a stipulation that the billing will be based on the actual cost incurred. This statement would not be required if the costs involved are specifically addressed in a State-wide cost allocation plan, local wide cost allocation plan, or an umbrella/department cost allocation plan.



Public Assistance Cost Allocation Plans

§ 95.507 Plan requirements. (b): (continued)

- (7) If the public assistance programs are administered by local government agencies under a State supervised system, the overall State agency cost allocation plan shall also include a cost allocation plan for the local agencies. It shall be developed in accordance with the requirements set forth above. More than one local agency plan shall be submitted if the accounting systems or other conditions at the local agencies preclude an equitable allocation of costs by the submission of a single plan for all local agencies. Prior to submitting multiple plans for local agencies, the State should consult with the Director, DCA. Where more than one local agency plan is submitted, the State shall identify the specific local agencies covered by each plan.**

Public Assistance Cost Allocation Plans

§ 95.507 Plan requirements. (b): (continued)

(8) A **certification** by a duly authorized official of the State stating:

(i) That the information contained in the proposed cost allocation plan was prepared in conformance with Office of Management and Budget Circular A-87.

(ii) That the costs are accorded consistent treatment through the application of generally accepted accounting principles appropriate to the circumstances.

(iii) That an adequate accounting and statistical system exists to support claims that will be made under the cost allocation plan; and

(iv) That the information provided in support of the proposed cost allocation plan is accurate.

Public Assistance Cost Allocation Plans

§ 95.507 Plan requirements. (b): (continued)

- (9) Other information as is necessary to establish the validity of the procedures used to identify, measure, and allocate costs to all programs being operated by the State agency.**

Public Assistance Cost Allocation Plans

§ 95.509 Cost allocation plan amendments and certifications.

(a) The State shall **promptly amend the cost allocation plan and submit the amended plan** to the Director, DCA if any of the following events occur:

- (1) The **procedures** shown in the existing cost allocation plan **become outdated** because of organizational changes, changes in Federal law or regulations, or significant changes in program levels, affecting the validity of the approved cost allocation procedures.
- (2) A **material defect is discovered** in the cost allocation plan by the Director, DCA or the State.
- (3) The **State plan for public assistance programs is amended so as to affect the allocation of costs.**

Public Assistance Cost Allocation Plans

§ 95.509 Cost allocation plan amendments and certifications. (a)(continued)

(4) **Other changes** occur which **make the allocation basis or procedures in the approval cost allocation plan invalid.**

(b) If a State has not submitted a plan or plan amendment during a given State fiscal year, an **annual statement** shall be submitted to the Director, DCA **certifying that its approved cost allocation plan is not outdated.** This statement shall be submitted within 60 days after the end of that fiscal year.

Public Assistance Cost Allocation Plans

§ 95.515 Effective date of a cost allocation plan amendment.

As a general rule, the **effective date of a cost allocation plan amendment shall be the first day of the calendar quarter following the date of the event that required the amendment** (See § 95.509). However, the effective date of the amendment may be earlier or later under the following conditions:

- (a) An earlier date is needed to **avoid a significant inequity** to either the State or the Federal Government.

**NOTE: See DAB Decision Number 1021
2/21/1989**

Public Assistance Cost Allocation Plans

§ 95.515 Effective date of a cost allocation plan amendment. (continued)

- (b) The **information provided** by the State which was **used to approve a previous plan or plan amendment is later found to be materially incomplete or inaccurate, or the previously approved plan is later found to violate a Federal statute or regulation.** In either situation, the **effective date of any required modification to the plan will be the same as the effective date of the plan or plan amendment that contained the defect.**
- (c) It is **impractical for the State to implement the amendment on the first day of the next calendar quarter.** In these instances, a **later date may be established** by agreement between the State and the DCA.

Public Assistance Cost Allocation Plans

§ 95.517 Claims for Federal financial participation.

(a) A State **must claim FFP for costs associated with a program only in accordance with its approved cost allocation plan.** However, if a State has submitted a plan or plan amendment for a State agency, it may, at its option **claim FFP based on the proposed plan or plan amendment,** unless otherwise advised by the DCA. However, where a State has claimed costs based on a proposed plan or plan amendment the State, if necessary, **shall retroactively adjust its claims in accordance with the plan or amendment as subsequently approved** by the Director, DCA. The State **may also continue to claim FFP under its existing approved cost allocation plan for all costs not affected by the proposed amendment.**

Public Assistance Cost Allocation Plans

§ 95.519 Cost disallowance.

If **costs** under a Public Assistance program are **not claimed in accordance with the approved cost allocation plan** (except as otherwise provided in § 95.517), or **if the State failed to submit an amended cost allocation plan** as required by § 95.509, the **costs improperly claimed will be disallowed**.

(a)

- (1) If the **issue affects the program(s) of only one Operating Division** and does not affect the programs of other Operating Divisions or Federal departments, **that Operating Division will determine the amount of the disallowance and will also inform the State of its opportunity for reconsideration of the determination in accordance with the Operating Division's procedures**. Prior to issuing the notification, however, the Operating Division shall consult with the DCA to ensure that the issue does not affect the programs of other Operating Divisions or Federal departments.



Public Assistance Cost Allocation Plans

§ 95.519 Cost disallowance. (a) (continued)

(2) If the State wishes to request a reconsideration of the Operating Division's determination, it must submit the request in accordance with the Operating Division's procedures.

(b) If the **issue affects the programs of more than one Operating Division**, or Federal department or the State, the **Director, DCA**, after consulting with the Operating Divisions, **shall determine the amount inappropriately claimed under each program. The Director, DCA will notify the State of this determination, of the dollar affect of the determination on the claims made under each program, and will inform the State of its opportunity for appeal of the determination under 45 CFR part 16.** The State will subsequently be notified by the appropriate Operating Division as to the disposition of the funds in question.

SWCAP / LOCAP, PACAP and Indirect Cost Rate Audit Results:

SWCAP / LOCAPs:

Single Audits

Frequency

Compliance Supplement Impact:

“May consider testing each central service at least every 5 years”

“perform additional testing – operating budgets of \$5 million or more”

Special Audits

SWCAP / LOCAP, PACAP and Indirect Cost Rate Audit Results:

SWCAP / LOCAPs - Single Audits Findings:

Changing self insurance premiums based on budgets \$50 million

A-87, Appendix A, Allowable Costs – consistent procedures that apply uniformly to Federal awards and other activities

Over funding of self insurance with high FFP and under funding of self insurance with zero FFP \$150 million

A-87, Appendix A, Allowable Costs – necessary and reasonable for proper and efficient performance and administration of Federal awards

SWCAP / LOCAP, PACAP and Indirect Cost Rate Audit Results:

SWCAP / LOCAPs - Single Audits Findings:

**Overcharging selected IT services /
using funds for State only IT purposes**

\$21 million

A-87, Appendix C G.4. Adjustment of billed central services

**A-87, Appendix A, Allowable Costs – necessary and reasonable for
proper and efficient performance and administration of Federal awards**

SWCAP / LOCAP, PACAP and Indirect Cost Rate Audit Results:

SWCAP / LOCAPs – Special Audits/Reviews

IT internal service fund accounting adjustments between billing rate categories to avoid reporting profits **\$2.5 million**

A-87 Appendix A Allocable Costs – A 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 relative benefits received.

Any cost allocable to a particular Federal award may not be changed to other Federal awards to overcome fund deficiencies, or for other purposes.

A-87, Appendix C G.4. Adjustment of billed central services

SWCAP / LOCAP, PACAP and Indirect Cost Rate Audit Results:

SWCAP Cash Recoveries – CAS Review:

IT and other ISFs – failure to adjust billing rates to eliminate “profit”

Pension / Health Insurance / Self Insurance Funds –

Charge Federal programs a higher rate

Transfers from Fund to General or other Funds

Depositing Fund investment earnings to General or other Funds

SWCAP / LOCAP, PACAP and Indirect Cost Rate Audit Results: (continued)

PACAPs

Procedural findings

Recipient costs

Indirect Cost Rates

Special Audits / Reviews:

Incomplete information for calculation of rates

Grant Officer resolved



Federal Awarding Agency Regulatory Implementation of Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

***Effective date:* This interim final
rule is effective on December 26, 2014.**

***Federal Register* -- December 19, 2014**

2 CFR Part 200 Supersedes and streamlines requirements from:

OMB Circular A-21, Cost Principles for Educational Institutions

OMB Circular A-50, Audit Followup

OMB Circular A-87, Cost Principles for State, Local. And Indian Tribal Governments

OMB Circular A-89, Catalog of Federal Domestic Assistance

OMB Circular A-102, Grants and Cooperative Agreements With State and Local Governments

2 CFR Part 200 Supersedes and streamlines requirements from:(continued)

OMB Circular A-110, Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations

OMB Circular A-122, Cost Principles for Non-Profit Organizations

OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards; Interim Final Rule

OMB amendments to this interim final rule include:

- **SHOULD is changed to MUST**
 - **“Should” may have been interpreted as “optional”**
- **Other changes to eliminate conflicting or unclear language, grammatical inconsistencies, etc.**
- **Use of Frequently Asked Questions documents to clarify**

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards; Interim Final Rule

Federal awarding agencies amendments:

- **Exceptions receiving OMB approval – to be consistent with existing policy**
- **Additional language beyond 2 CFR part 200, consistent with existing policy to provide more detail with respect to how they intend to implement the policy.**
- **Other changes to eliminate conflicting or unclear language, grammatical inconsistencies, etc.**

45 CFR Part 75 contains:

- **Subpart A – Acronyms and Definitions**
- **Subpart B – General Provisions** (effective date, etc.)
- **Subpart C – Pre-Federal Award Requirements and Content of Federal Awards**
- **Subpart D – Post Federal Award Requirements (administrative requirements)**
- **Subpart E – Cost Principles**
- **Subpart F – Audit Requirements**

45 CFR Part 75 contains:

Appendixes:

I Full Text of Notice of Funding Opportunity

II Contract Provisions or Non-Federal Entity Contracts under Federal Awards

III Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education

IV Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations

V State/Local Governments-Wide Central Service Cost Allocation Plans

45 CFR Part 75 contains:

Appendixes: (Continued)

VI Public Assistance Cost Allocation Plans

VII States and Local Government and Indian Tribe Indirect Cost Proposals

VIII Nonprofit Organizations Exempted from Subpart E of Part 75

IX Principles for Determining Costs Applicable to Research and Development Under Grants and Contracts with Hospitals

X Data Collection Form

XI Compliance Supplement

EFFECTIVE DATES:

Office of Management and Budget

2 CFR Part 200

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

200.110 “become effective once implemented by Federal agencies”

DHHS 75.110 “become effective December 26, 2014”

- **CAS : indirect cost rate proposals – First proposal based upon actual costs for grantee fiscal years beginning after 12/26/2014**
- **OPDIV Implementation ???????????????**

Should and Must

Frequently Asked Questions – November 2014

Must – requirements

Should – indicate best practices or recommended approaches that the COFAR wanted non-Federal entities to be aware of, but not necessarily required to comply with.

PROFIT:

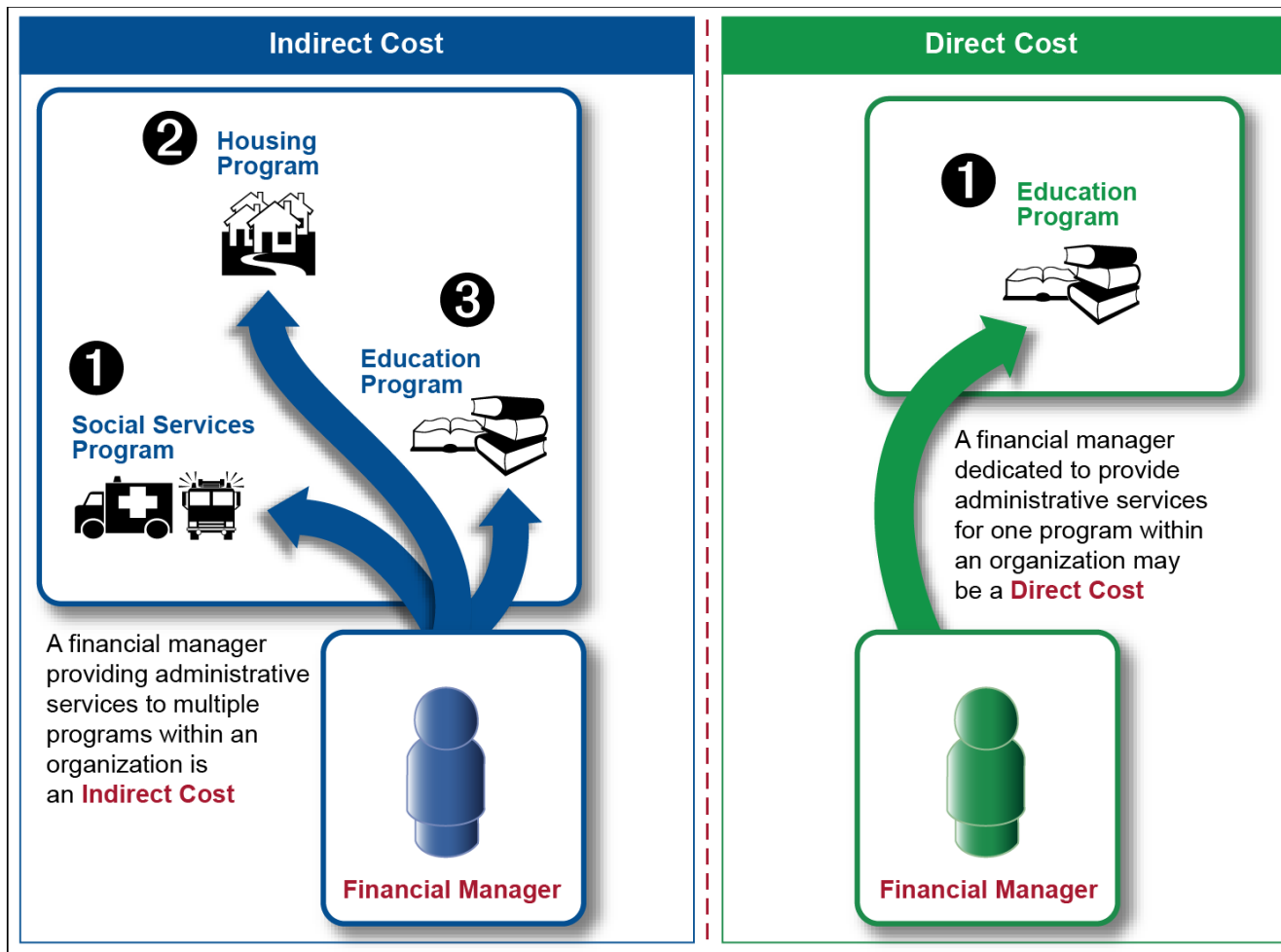
Provision for profit or other increment above cost is outside the scope of 2 CFR part 225.

§75.400

(g) The non-Federal entity may not earn or keep any profit resulting from Federal financial assistance, unless explicitly authorized by the terms and conditions of the Federal award. See also § 75.307.

§ 75.403 Factors affecting **allowability** of costs.

(d) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost **if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.**



Source: GAO analysis of OMB Circular No. A-21. | GAO-15-118

§ 75.403 Factors affecting allowability of costs

Removed:

**Be authorized or not prohibited under
State or local laws or regulations.**

§ 75.405 Allocable Costs.

- (a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received.**

From A-122 and merger has added for State and Local :

This standard is met if the cost:

- (1) Is incurred specifically for the Federal award;**
- (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and**
- (3) Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.**

§ 75.405 Allowable Costs.

(c) Cost allocable to a particular Federal award ... may not be charged to other Federal awards

Clarification added:

However, this prohibition would not preclude the non-Federal entity from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.

See ASMB C-10 Section 2.8.2 referred to as “funding allocations”

§ 75.405 Allocable Costs.

From A-21 and merger has added for State and Local :

(d) Direct cost allocation principles. If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis.

§ 75.405 Allocable Costs.

New to regs:

(d) Where the purchase of equipment or other capital asset is specifically authorized under a Federal award, the costs are assignable to the Federal award

regardless of the use that may be made of the equipment or other capital asset involved when no longer needed for the purpose for which it was originally required. See also §§ 75.317 through 75.323 and 75.439.

§ 75.407 Prior written approval (prior approval).

prior approval is **specifically required** for allowability as described under certain circumstances in the following sections of this part:

Note: The list is not all inclusive

Example:

§ 75.430 (i) Standards for Documentation of Personnel Expenses

(7), provided that such plans are **approved in advance by all involved Federal awarding agencies.**

§ 75.408 Limitation on allowance of costs.

From A-21 and merger has added for State and Local :

The Federal award may be subject to statutory requirements that limit the allowability of costs. When the maximum amount allowable under a limitation is less than the total amount determined in accordance with the principles in this part, **the amount not recoverable under the Federal award may not be charged to the Federal award.**

§ 75.414 Indirect (F&A) costs.

(c) *Federal Agency Acceptance of Negotiated Indirect Cost Rates.* (See also § 75.306.)

(1) **The negotiated rates must be accepted by all Federal awarding agencies.** An HHS awarding agency may use a rate different from the negotiated rate for a class of Federal awards or a single Federal award only when required by Federal statute or regulation, or when approved by a Federal awarding agency head or delegate based on documented justification as described in paragraph (c)(3) of this section.

§ 75.414 Indirect (F&A) costs.

(c) *Federal Agency Acceptance of Negotiated Indirect Cost Rates.* (See also § 75.306.) (continued)

(2) The HHS awarding agency head or delegate must notify OMB of any approved deviations.

(3) The HHS awarding agency must implement, and make publicly available, the policies, procedures and general decision making criteria that their programs will follow to seek and justify deviations from negotiated rates.

§ 75.430 (i) Standards for Documentation of Personnel Expenses

(i) Records must be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable and properly allocated.

§ 75.430 (i) Standards for Documentation of Personnel Expenses (continued)

System of internal control:

Prior version: 2 CFR Part 225 Appendix B, Section 8. h.

- **No mention of internal control**
- **Prescribed methods to use**

§ 75.430 (i) Standards for Documentation of Personnel Expenses (continued)

System of internal control:

Preamble – December 26, 2013:

Uses the term “internal control” 14 times discussing .430(i)

75.430 (i):

- Contains no reference to 75.303 Internal Controls
- uses the term “internal control” only 2 times:
 - Previous slide
 - Use of budget estimates for time reporting ((vii)(C))

§75.303 Internal Control

- **MUST** establish and maintain effective internal control
- **SHOULD** be in compliance with guidance in:
 - “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States

OR

- “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)

§75.303 Internal Control

FAQs – November 2014

Adds a third document – Appendix XI Compliance Supplement – Part 6 Internal Control

and....

“no expectation or requirement that the non-Federal entity document or evaluate IC prescriptively in accordance with these three documents....”

“provided solely to alert the non-Federal entity to source documents for best practices.”

§ 75.430 (i) Standards for Documentation of Personnel Expenses (continued)

- (i) Supported by a system of internal control**
- (ii) Incorporated into official records of the non-Federal entity**
- (iii) Reasonably reflect the total activity for which the employee is compensated, not exceeding 100% of compensated activities**
- (iv) Encompass both federally assisted and all other activities compensated by the non-Federal entity**
- (v) Comply with the established accounting policies and practices of the non-Federal entity**

§ 75.430 (i) Standards for Documentation of Personnel Expenses (continued)

(vi) (Reserved)

(vii) Support the distribution of the employee' salary ... among specific activities or cost objectives if the employee works on:

- **More than one Federal award**
- **Federal award and non-Federal award**
- **Indirect cost activity and direct cost activity**

§ 75.430 (i) Standards for Documentation of Personnel Expenses (continued)

(vii) Support the distribution of the employee's salary ... among specific activities or cost objectives if the employee works on:

- **Two or more indirect cost activities allocated using different allocation bases**
- **Unallowable activity and a direct or indirect cost activity**

(viii) Budget estimates may be used for interim accounting purposes

- (A) Reasonable approximations of activity actually performed**
- (B) Significant changes are identified and entered into the records**
- (C) Internal controls include processes to review after-the-fact interim charges**

§ 75.430 (i) Standards for Documentation of Personnel Expenses (continued)

(5) If approved by cognizant agency for indirect cost:

random moment sampling

“rolling” time studies

case counts

other quantifiable measures of work performed

§ 75.430 (i) Standards for Documentation of Personnel Expenses (continued)

(6) Cognizant agencies for indirect costs are encouraged to approve alternative proposals based on outcomes and milestones for program performance where these are clearly documented.

§ 75.430 (i) Standards for Documentation of Personnel Expenses (continued)

(7) For Federal awards of **similar purpose activity or instances of approved blended funding**, a non-Federal entity **may submit performance plans** that incorporate funds from multiple Federal awards and account for their combined use **based on performance-oriented metrics**, provided that such plans are **approved in advance by all involved Federal awarding agencies**.

§ 75.430 (i) Standards for Documentation of Personnel Expenses (continued)

(7) (continued)

The non-Federal entity must **submit a request for waiver** of the requirements based on documentation that describes the method of charging costs, relates the charging of costs to the specific activity that is applicable to all fund sources, and is **based on quantifiable measures** of the activity in relation to time charged.

§ 75.430 (i) Standards for Documentation of Personnel Expenses (continued)

Prior Approval Required for:

(5) Substitute processes or systems

(6) alternative proposals based on outcomes and milestones for program performance

(7) performance plans for similar purpose activity or instances of approved blended funding

SELECTED ITEMS OF COST

§ 75.2 Software added to definition of Capital Assets

**§ 75.436 Depreciation – Use allowance eliminated
(d)(5) rule for replacing Use Allowance with
Depreciation**

**§ 75.449 Interest allowable for intangible assets –
software development projects**

§75.433 Contingency provisions.

- **Large construction projects, IT systems or other items as approved by the HHS awarding agency**
- **Amounts estimated using methodologies specified in budget documentation of the Federal award and accepted by the HHS awarding agency.**
- **Contingency amounts are to be included in the Federal award.**

Federal Cognizant Agency

Statewide Cost Allocation Plans (SWCAP) – Department of Health and Human Services

Local-wide Central Service Cost Allocation Plans (LOCAP) – Federal agency with the largest dollar value of total Federal awards with a governmental unit

Public Assistance Cost Allocation Plans (PACAP) - Department of Health and Human Services

Indirect Cost Rates and Departmental Indirect Cost Allocation Plans -

Federal agency with the largest dollar value of direct Federal awards with a governmental unit or component unit

Exceptions: See Appendix V Section F 1.

Appendix V State/Local Governmentwide Central Service Cost Allocation Plans

- **Major local government – receives more than \$100 million direct Federal awards --- must submit Local Governmentwide Cost Allocation Plan to cognizant agency annually**
- **COG – Federal agency with the largest dollar value of total Federal awards with a governmental unit.**

Appendix VII States and Local Government and Indian Tribe Indirect Cost Proposals:

Different Situations:

Indian Tribal Government – must do annually

Departments receiving > \$35 million of direct federal funding

Departments receiving < \$35 million of direct federal funding with a rate agreement

Appendix VII States and Local Government and Indian Tribe Indirect Cost Proposals:

Different Situations:

Departments receiving < \$35 million of direct federal funding without a rate agreement

- take a 10% of Total Modified Direct Costs (de minimis rate)**

- get asked to submit a proposal**

Interagency service – 10% of Direct salary and wage costs

- determine actual indirect costs(75.417)**

Indirect Cost Allocation not using a rate

Appendix VII States and Local Government and Indian Tribe Indirect Rate Cost Proposals:

- **Departments receiving > \$35 million of direct federal funding must submit proposal to Federal cognizant agency.**
- **Cognizant Agency – the Federal agency with the largest dollar value of direct Federal awards with a governmental unit or component, as appropriate.**

10% MTDC De Minimis Indirect Cost Rate

§ 75.414 (f) Any non-Federal entity * that has never received a negotiated indirect cost rate may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) indefinitely.

* TWO EXCEPTIONS:

- Governmental department or agency receiving more than \$35 million in direct Federal funding (Appendix VII D.1.b.)
- Indian tribal governments desiring reimbursement of indirect costs (D.1.c.) (FAQs inconsistent)

10% MTDC De Minimis Indirect Cost Rate (continued)

Non-Federal Entities:

Already has a negotiated rate with Federal Government

RATE AGREEMENT MUST BE USED

(FAQs – Nov 2014)

10% MTDC De Minimis Indirect Cost Rate

(continued)

If Selected:

Costs must be consistently charged as either indirect or direct costs, but may not be double charged or inconsistently charged as both.

Once elected MUST be used consistently for ALL Federal awards UNTIL – Non Federal entity chooses to negotiate for a rate – MAY do at ANY time.

75.414(f)

10% MTDC De Minimis Indirect Cost Rate

(continued)

If Selected:

State and local governments must keep document of this decision on file. **What about others?**

Indian tribes that have never negotiated an indirect cost rate with the Federal government may also use the 10% and keep the document of this decision on file (not what the regs say at Appendix VII D.1.c.)

(FAQs – Nov 2014)

10% MTDC De Minimis Indirect Cost Rate (continued)

Pass-Thru Entities:

NOT PERMISSABLE (Pass-Thru Entities) – to force / entice a proposed subrecipient without a rate to take less than the 10% de minimis rate.

Pass-Thru Entities MAY, but is not required to negotiate a rate with a proposed subrecipient who asks to do so.

(FAQs – Nov 2014)

Appendix VII States and Local Government and Indian Tribe Indirect Cost Rate Proposals:

Departments receiving > \$35 million of direct federal funding must submit proposal to its cognizant agency for indirect cost (CAIC).

Other departments must prepare and maintain for audit. Not required to submit unless they are specifically requested to do so by the CAIC.

(Appendix VII D.1.b)

- **Cost Allocation Services requests proposals based on the needs of US DHHS and other grant officers**
- **PACAPs potentially affected – State PACAP departments with indirect cost rate agreements**

Appendix VII States and Local Government and Indian Tribe Indirect Cost Rate Proposals: (continued)

Each Indian tribal government desiring reimbursement of indirect costs must submit its indirect cost proposal to the Department of the Interior (its cognizant agency for indirect costs).

(Appendix VII D. 1. c.) inconsistent with FAQs – Nov 2014

§ 75.417 Interagency Service:

Services provided by non central service (SWCAP) departments / agencies of the governmental unit:

In lieu of determining actual indirect costs ---

MAY (note: not required) include 10% of direct salary and wage cost

Excluding overtime, shift premiums, fringe benefits

These services do not include centralized services included in central service cost allocation plans – Are they excluded or can be added on top of?

Question: Can Sister State Agencies and Local Government Providers charge 10% De Minimis?

Have they ever negotiated an indirect cost rate **with Federal government?**

Yes – No they can't / No – Maybe

Do they get more than \$35 million direct from the Federal Government?

Yes – No they can't - must negotiate an indirect cost rate

No – “May” use 10% of MTDC De Minimis

But what about 75.417? It is full of “MAYS”

FAQs say can't “force / entice” a lower rate than 10% De Minimis

Question: Can Sister State Agencies and Local Government Providers charge 10% De Minimis? (continued)

Do I, as one of the above, pick?:

- **10% of direct salary and wage cost of providing the service (excluding overtime, shift premiums, and fringe benefits)**

OR

- **10% of Total Modified Direct Costs**

What would you do?

Indirect Cost Rate Extensions

§ 75.414 (g) Any non-Federal entity that has a **current federally negotiated indirect cost rate** may apply for a one-time extension of the rates in that agreement for a period of **up to four years**.

- Requires review and approval by cognizant agency for indirect costs
- May not request a rate review until extension period ends
- At end of 4-year extension, the non-Federal entity must re-apply to negotiate a rate
- Subsequent one-time extensions (up to 4 years) are permitted IF a renegotiation is completed between each extension request

Indirect Cost Rate Extensions (continued)

- **Rate in effect – not expired when extension is requested**
- **Due date – should be submitted 60 days prior to the due date of the next proposal for indirect costs**
 - **For rate ending 6/30/2015 (FY 7/1/2014 – 6/30/2015)**
 - **Due date of proposal 12/31/2014 based on actual costs of FYE 6/30/2014**
 - **Due date of request for extension – approximately 10/31/2014**

Documentation should be kept to a minimum

(FAQs – Nov 2014)

Indirect Cost Rate Extensions (continued)

Types of rates available:

Predetermined

Final

Rate types not available:

Provisional

Fixed (with Carryforward)

Fixed (with CF) must be negotiated to a Predetermined or Final which could then be extended – CF adjustment must be done using cog agency procedures

(FAQs – Nov 2014)

Indirect Cost Rate Extensions (continued)

EXAMPLE:

Current negotiated rate 7/1/2015 – 6/30/2016
 Requests 3 year extension to 6/30/2019
 due by..... 10/31/2015

Approved

Submit proposal for 7/1/2019 - 6/30/2020
 due by12/31/2018
 based on actual cost of fiscal year ending 6/30/2018

Rate agreement – predetermined rates (3 years).....7/1/2019 – 6/30/2023

Can submit a request for extension for 4 years for7/1/2023 – 6/30/2027
 due by..... 10/31/2025

(FAQs – Nov 2014)

Useful websites:

Cost Allocation Services: <https://rates.psc.gov/>

CAS Documents page:

<https://rates.psc.gov/fms/dca/orgmenu.html>

Government Printing Office: <http://www.gpo.gov/fdsys/>

Departmental Appeals Board:

<http://www.hhs.gov/dab/decisions/index.html>

Useful websites:

U.S. Department of Interior:

http://www.doi.gov/ibc/services/indirect_cost_services/ICS_Services.cfm

U.S. Department of Labor:

<http://www.dol.gov/oasam/boc/dcd/>

U.S. Department of Education:

<http://www2.ed.gov/about/offices/list/ocfo/fipao/icgindex.html>