

# Technical Aspects of Your Indirect Cost Allocation

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# Overview

- Governing Documents
- Direct Costs & Indirect Costs
- Cost Allocation Plan
- Allocation Bases
- Indirect Cost Rate
- Best Practices
- Summary



# Governing Documents

- Uniform Guidance/Title 2 Code of Federal Regulations Part 200.412  
(Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards)



# Uniform Guidance

- Replaced Circulars  
A-21, A-50, A-87, A-89, A-102, A-122 and A-133
- Goals
  - Streamline **guidance** to ease administrative burden
  - Strengthen **oversight** over federal funds
  - Eliminate **duplicative** and conflicting provisions



# Super Circular

- Published 12/26/13 and became effective **12/26/14**
- Applies to **audits** for fiscal years  
(Beginning on or after 12/26/14)
- Typically **Fiscal Year 2015-16**  
(Unless fiscal year end is 12/31)



# Costs

- Allowable
- Allocable
- Reasonable



# Allowable Cost

- Conform to **federal guidance and grant award**
- Consistent with organization **policies and procedures**
- Consistent treatment of **similar costs**
- Accordance with generally accepted **accounting principles**
- Document **methodology**



# Reasonable Costs

- Prudent person test
- Ordinary and necessary for operation
- Sound **business** practice
- Consistent with established **practices**





# Allocable Costs

- Accordance with **relative benefit**
- Specific to **project**
- Benefits **multiple projects**
- Reasonable **distribution**



# Cost Allocation

- Process to determine **total cost** of a project
- **Distribute** costs to a project
- Use **statistical data** to measure benefit to project



# Total Cost

- Allowable **direct costs**; and
- Allocable **indirect costs**



# Direct Costs

- Specific to a **project**
- Specific **final cost**
- Cannot be assigned to **other projects**



# Indirect Costs

- Common or **joint benefit** to multiple projects
- **Costs remaining** after assigning direct costs
- **Cannot be allocated** if similar cost assigned to a project



# Allocation Bases

- Employees
- Transactions
- Space/Square Footage
- Salaries and Wages



# Indirect Cost Example

- **Depreciation** of buildings and equipment  
(Rent and fixed asset computers)
- **Operation and maintenance** facilities  
(Utilities, service agreements, insurance)
- **Administrative salaries** and expenses  
(Administrative and financial staff)
- **Legal services**



# Indirect Cost Rate

- **Indirect Cost Rate (%) =  $\frac{\text{Total Indirect Costs (\$)}}{\text{Direct Cost Base (\$)}}$**
- **Indirect Costs are fixed**
  - Small Base = Large Rate
  - Large Base = Small Rate





# Indirect Cost Rate Example 1

- Three projects/grants (A, B & C)
- Indirect Costs = \$500,000
- Direct Salaries & Wages = \$2,000,000
- Indirect Rate:  $\frac{\$500,000}{\$2,000,000} = 25\%$



# Indirect Cost Rate Example 1

- Grant A Direct Salaries and Wages: **\$400,000**  
(Indirect Cost Recovery = **\$100,000** ( $\$400,000 \times 25\%$ ))
- Grant B Direct Salaries and Wages: **\$600,000**  
(Indirect Cost Recovery = **\$150,000** ( $\$600,000 \times 25\%$ ))
- Grant C Direct Salaries and Wages: **\$1,000,000**  
(Indirect Cost Recovery = **\$250,000** ( $\$1,000,000 \times 25\%$ ))



# Indirect Cost Rate Example 2

- Three projects (grants) (A, B & C)
- Indirect Costs = \$500,000
- Direct Salaries & Wages = \$1,000,000
- Indirect Rate: 
$$\frac{\$500,000}{\$1,000,000} = 50\%$$



# Indirect Cost Rate Example 2

- Grant A Direct Salaries and Wages: **\$200,000**  
(Indirect Cost Recovery = **\$100,000** ( $\$200,000 \times 50\%$ ))
- Grant B Direct Salaries and Wages: **\$300,000**  
(Indirect Cost Recovery = **\$150,000** ( $\$300,000 \times 50\%$ ))
- Grant C Direct Salaries and Wages: **\$500,000**  
(Indirect Cost Recovery = **\$250,000** ( $\$500,000 \times 50\%$ ))



# Impact of Indirect Rate on Projects

	<u>Rate</u>	<u>Direct</u>	<u>Indirect</u>	<u>Total</u>
■ Grant A Example 1	25%	\$400,000	\$100,000	<b>\$500,000</b>
■ Grant A Example 2	50%	\$200,000	\$100,000	<b>\$300,000</b>
■ Grant B Example 1	25%	\$600,000	\$150,000	<b>\$750,000</b>
■ Grant B Example 2	50%	\$300,000	\$150,000	<b>\$450,000</b>
■ Grant C Example 1	25%	\$1,000,000	\$250,000	<b>\$1,250,000</b>
Grant C Example 2	50%	\$500,000	\$250,000	<b>\$750,000</b>



# Types of Rate

- **Provisional Rate** - based on anticipated costs  
(Subject to adjustment)
- **Final Rate** - based on known costs  
(Not subject to adjustment)
- **Fixed Rate** - agreed in advance  
(Difference carried forward)
- **Predetermined Rate** - agreed in advance  
(Not subject to adjustment)



# Administrative Matters

- Cognizant Agency
- Certificate of Indirect Costs



# Best Practices

- Use **consistent and reasonable** method
- Identify and **charge direct expenses** whenever possible
- Identify **primary cost drivers** of indirect cost (salary vs. space)
- Document **allocation methodology** (work papers)
- Allocate **appropriate expenses**





# Summary

- Uniform Guidance
  - Title 2 Code of Federal Regulations Part 200.412
- Total Costs = Total Costs
- Cost Allocation Plan
- Allocation Bases
- Indirect Cost Rate
- Best Practices

