Technical Aspects of Your Indirect Cost Allocation

Scott R. Koons, AICP, Executive Director
Presenter

North Central Florida Regional Planning Council
Gainesville, FL

2018 SouthEast Regional Directors Institute
Annual Professional Development Conference
Kingsport, TN
May 21, 2018
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

- 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 \( \times \) $400,000 \times 25\%)

- Grant B Direct Salaries and Wages: $600,000  
  (Indirect Cost Recovery = $150,000 \( \times \) $600,000 \times 25\%)

- Grant C Direct Salaries and Wages: $1,000,000  
  (Indirect Cost Recovery = $250,000 \( \times \) $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 x 50%))

- Grant B Direct Salaries and Wages: $300,000
  (Indirect Cost Recovery = $150,000 ($300,000 x 50%))

- Grant C Direct Salaries and Wages: $500,000
  (Indirect Cost Recovery = $250,000 ($500,000 x 50%))
<table>
<thead>
<tr>
<th>Example</th>
<th>Rate</th>
<th>Direct</th>
<th>Indirect</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant A Example 1</td>
<td>25%</td>
<td>$400,000</td>
<td>$100,000</td>
<td>$500,000</td>
</tr>
<tr>
<td>Grant A Example 2</td>
<td>50%</td>
<td>$200,000</td>
<td>$100,000</td>
<td>$300,000</td>
</tr>
<tr>
<td>Grant B Example 1</td>
<td>25%</td>
<td>$600,000</td>
<td>$150,000</td>
<td>$750,000</td>
</tr>
<tr>
<td>Grant B Example 2</td>
<td>50%</td>
<td>$300,000</td>
<td>$150,000</td>
<td>$450,000</td>
</tr>
<tr>
<td>Grant C Example 1</td>
<td>25%</td>
<td>$1,000,000</td>
<td>$250,000</td>
<td>$1,250,000</td>
</tr>
<tr>
<td>Grant C Example 2</td>
<td>50%</td>
<td>$500,000</td>
<td>$250,000</td>
<td>$750,000</td>
</tr>
</tbody>
</table>
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