



West Virginia DEPARTMENT OF
EDUCATION

INDIRECT COSTS

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What Are Indirect Costs?

- Indirect costs are costs that:
 - Are incurred for a common or joint purpose benefiting more than one cost objective.
 - Are not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.

What Is An Indirect Cost Rate?

- Indirect cost rate – a device for determining, in a reasonable manner, the proportion of indirect costs each program should bear.
- It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base.

Different Types of Indirect Cost Rates

- Provisional Rate – temporary indirect cost rate applicable to a specified period which is used for funding, interim reimbursement and reporting indirect costs on federal awards pending the establishment of a “final rate” for that period.
- Final Rate – an indirect cost rate applicable to a specified past period, which is based on the actual allowable costs of the period. A final rate is not subject to adjustment.

Different Types Of Cost Rates (Cont.)

- Predetermined Rate – an indirect cost rate applicable to a specified current or future period, usually the governmental unit's fiscal year. It is based on an estimate of the costs to be incurred during the period. Except under very unusual circumstances, a predetermined rate is not subject to adjustment.
- Fixed Rate – an indirect cost rate which has the same characteristics as a predetermined rate, except the difference between the estimated costs and the actual, allowable costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.

What Type of Rate Do LEAs In WV Use?

- County Boards use a fixed rate with a carry-forward provision.
- MCVCs use the rates of their fiscal agents.
- New LEAs (including ESCs) also use a fixed rate with a carry-forward provision. However, the first two years are based on budgeted expenditure data until the carryforward provision can be implemented.

Restricted vs. Unrestricted Rates

- **Unrestricted** indirect cost rates are those calculated for use on programs without limitations on indirect costs.
- **Restricted** indirect cost plans are used for programs with a statutory requirement prohibiting the use of federal funds to supplant non-federal funds.
 - The restricted indirect cost calculation results in a lower percentage.

Approvals

- The West Virginia Department of Education is authorized by the US Department of Education to approve the indirect rates for LEAs in WV.

What Factors Affect The Allowability Of Costs?

- Per 2 CFR §200.403, costs must meet the following general criteria in order to be allowable under Federal awards:
 - **Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.**
 - Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
 - Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.

What Factors Affect The Allowability Of Costs (Cont.)?

- **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 circumstance has been allocated to the Federal award as an indirect cost.**
- Be determined in accordance with GAAP.
- Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.
- Be adequately documented.

Examples Of Unallowable Costs

- The items listed below are generally deemed unallowable under 2 CFR Part 200. This list is not intended to be a comprehensive list of all unallowable costs. Further, some of the items listed may have exceptions, so the specific sections have been provided for further review.
 - Certain types of advertising and public relation costs (§200.421)
 - Alcoholic beverages (§200.423)
 - Bad debt expense (§200.426)
 - Contingency provisions (§200.433)
 - Contributions or donations (§200.434)
 - Entertainment Costs (§200.438)
 - Fines and penalties (§200.441)
 - Fundraising and investment management costs (§200.442)
 - General Costs of Government (salaries of the chief executive, salaries of the board, etc.) (§200.444)
 - Goods or services for personal use (§200.445)
 - Lobbying (§200.450)
 - Selling and marketing (§200.467)

Unallowable Costs

- Link to 2 CFR Part 200
- http://www.ecfr.gov/cgi-bin/textidx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl.
- Go to Subpart E
- Sections §200.420 through §200.475 discuss unallowable costs in detail.

Time and Effort Requirements for Split-Coded Personnel

- Per the *Cost Allocation Guide for State and Local Governments* published by the Indirect Cost Group of the United States Department of Education (USDE), “allowable labor costs, whether charged directly or indirectly to federal awards, must be based on records reflecting the actual activities of employees.” The guidance further states the following:
- “The Personnel Activity Report (PAR) supplements the time and attendance reporting system by identifying the amount of time an employee works on multiple cost objectives. An employee is considered to work on multiple cost objectives if they work on:
 - More than one federal award;
 - A federal award and a non-federal award;
 - An indirect cost activity and a direct cost activity;
 - Two or more indirect cost activities which are allocated using different allocation bases; or
 - An unallowable activity and a direct or indirect cost activity.”

Time and Effort Requirements for Split-Coded Personnel

- “PARS must meet the following standards:
 - After-the-Fact Record: must reflect an after the fact distribution of the actual activity of the employee;
 - Total Activity: must account for the total activity for which the employee is compensated;
 - Monthly: must be prepared at least monthly and must coincide with one or more pay periods; and
 - Signed and dated: must be signed and dated by the employee. A signature of the supervisor alone is not sufficient.
- Budget estimates determined before the services are performed do not qualify as support for charges to federal awards. However, estimates may be used for interim accounting purposes....”

Time and Effort Requirements for Split-Coded Personnel

In a nutshell, this federal guidance means that not only do individuals that work directly on federal grants need to maintain time and effort documentation, but individuals that are split-coded with an indirect cost activity (such as program function code X25XX or X23XX) must also maintain time and effort documentation as well. Please be aware that ALL individuals that are split-coded to an indirect cost pool program/function code will need to maintain time and effort documentation.

Time and Effort Requirements for Split-Coded Personnel

- Completion of such time and effort documentation will be subject to WVDE review and failure to maintain the required documentation will result in the expenditures being excluded from your indirect cost pool, leading to a reduction in your indirect cost rate.
- The additional record-keeping requirements should be taken into consideration when determining if split-coding employees is worth the slight increase in your indirect cost rate.
- Unless your employees have already performed time and effort documentation for the 2018-19 year, it would be inappropriate to do a journal entry to move a portion of their payroll expenditures for the year. Payroll expenditures for time moving forward could be split-coded upon implementation of the required time and effort documentation.

Central Office Postage

- It is **NOT** appropriate to charge **ALL** central office postage, postage machine supplies and postage machine leases to X2560.
- **While it may be appropriate to charge a portion of the cost for these items to X2560, the majority of postage-related costs are actually being incurred for other administrative purposes that do not meet the definition for X2560 listed below.**

X2560 – Public Information Services: Activities concerned with writing, editing, and other preparation necessary to disseminate educational and administrative information to students, staff, managers and the general public through direct mailing, the various new media, e-mail, the internet and web sites, and personal contact. The information services function code includes related supervision and internal public information services.

Professional Staff Development Costs

It is NEVER appropriate to code staff development costs for professional instructional personnel to X2570. While the WVDE LEA Chart of Accounts description for X2570 may generically state in-service training, the specific X2574 code under the X2570 series makes it clear that the code is to be used for service personnel staff training costs. In addition, the description for X2213 makes it very clear that it is the proper code to be used for professional personnel staff development costs. **All professional development costs for instructional personnel must be charged to X2213.**

Professional Staff Development Costs

When comparing the WVDE LEA Chart of Account Code descriptions to the USDE Chart of Account descriptions, the USDE makes a distinction more between instructional personnel and non-instructional personnel than professional and service. Therefore, if you have noninstructional professional personnel staff development costs, it appears to be permissible to use the X2570 or X2574 code to record the costs. Examples would be a Professional Maintenance Director or Transportation Director, etc. Please keep in mind when making such coding decisions, using the X2570 code could have an impact on other funding sources. Many counties often record any costs (including costs related to attending professional development meetings) related to maintenance to X26XX and transportation to X27XX. Moving those costs to X25XX to increase your indirect cost rate will result in a reduction to the Step 4 and Step 6a funding under the Public School Support Plan.

County Vision and Dental Costs

It is NEVER appropriate to code the full county-wide cost for employee vision and dental benefits to X2575. Per the *Cost Allocation Guide for State and Local Governments*, “Fixed charges classified as indirect costs are limited to those amounts which are associated with general management costs. The fixed charges can be viewed as appended to those administrative functions, and the classification rules as the same as those applied to salaries.” The definition provided for fixed costs includes, among others, premium expenditures for employee insurance and all similar costs normally considered being employee fringe benefits.

County Vision and Dental Costs

The costs incurred for employee vision and dental benefits should follow the employee to the appropriate program/function code. In a situation where the county is paying a set premium amount for vision and dental benefits, that cost should be able to flow through an employer payroll deduction in WVEIS to the appropriate code based on the employee's contract. It may be more difficult to code the expenditures to the appropriate program/function codes in situations where a county is self-insured and is paying direct benefit amounts to vision/dental providers or a third party administrator. We believe it would be appropriate to allocate the total cost for the year to the applicable program function codes based on the payroll distribution of your employees via a year-end journal entry, which would essentially average the cost per employee instead of tracking the self-insured amount incurred for each specific employee back to their individual program/function code.

Child Nutrition Non-Food vs. Supplies

The definition of Object Code 636 per the Chart of Accounts is "Expenditures for non-food supplies used in the school food service program." While that definition could certainly encompass disposable items (such as foil, plastic wrap, bags, disposal trays, plates, etc.), it covers ALL supplies used in the school food service program that aren't food/milk or that don't meet the capitalization threshold to be considered equipment. Supplies that will be used multiple times and aren't necessarily disposable in nature (such as serving spoons, pans, bowls, etc.) that are utilized in the preparation of food should still be coded to object code 636. It would be inappropriate to code those types of supplies to Object Code 611 simply due to the treatment of the expenditures in the indirect cost calculations.

Student Body Activities

Local student body activity expenditures should be properly coded to Project 00Y89 in accordance with the LEA Chart of Accounts. It would be inappropriate to code those types of expenditures to another local project code simply due to the treatment of the expenditures in the indirect cost calculations.

Central Office Expenditures

It is inappropriate to code expenditures related to the Executive Administration (X232X) function to another code simply for indirect cost purposes. Purchases should be analyzed to determine the appropriate program/function code based on how the item will be used, who will be using the item, etc.

Terminal Leave

- Terminal leave is the payment for unused leave made to employees who retire or terminate employment during the year. According to USDE, terminal leave for all employees is supposed to be part of the indirect cost pool. It is not an allowable direct cost under federally-funded programs.
- In WV, terminal leave is a part of fringe benefits and follows direct labor in the rate calculation process. There is no separate object code for terminal leave in the National Center for Education Statistics (NCES) *Financial Accounting for Local and State School Systems: 2009 Edition*, so capturing terminal leave to add to the indirect cost pool is impractical.
- **If a federally-funded employee is paid out for accrued leave upon termination or retirement, the federal program CANNOT be charged for the expense. The leave payout should be charged to an unrestricted project instead.**

Sub-Awards

- Subawards include subgrants and subcontracts.
- Major subawards do not incur or benefit from indirect costs to the same degree as other activities.
 - A major subaward is one that exceeds \$25,000 in expenditures per year.
 - LEAs must exclude any subaward costs in excess of \$25,000 per subaward per year.
 - Essentially, the indirect cost rate can only be applied to the first \$25,000 of each subaward each year.
- Generally, subawards are prohibited by WVDE.

Excluded Costs

- Projects
 - Total expenditures in Student Body Activities (Project 00Y89)
- Program/Functions (not included in above projects)
 - Total expenditures in Facilities Acquisition & Construction (Program Function X4XXX)
 - Total expenditures in Interfund Transfers (Program Function X61XX)
 - Total expenditures in Other Transfers (Program Function X62XX)
 - Total expenditures in Reserved (Program Function X63XX)
- Objects (not included in above projects or program/functions)
 - Total expenditures in Capital Assets (Object 73X)
 - Total expenditures in Bus Replacement (Object 74X)
 - Total expenditures in Food & Food Supplies (Object 63X)
 - Total expenditures for Other Post Employment Benefits related to the unfunded liability (Object 217)

Limitations On Recovery Of Indirect Costs

- Federal law may limit the amount of indirect costs which may be recovered.
 - Example - the maximum indirect cost allowable by law for a particular program may be less than the amount allowable under 2 CFR Part 200
 - The Carl Perkins program limits the total amount of “administrative costs” under their grant to 5% of the award.
 - Indirect costs are considered “administrative costs” so LEAs may not be able to recover the full amount of indirect costs that would normally be calculated due to those restrictions.

Limitations On Recovery Of Indirect Costs (Cont.)

- Recovery of indirect costs is subject to availability of funds. If a combination of direct and indirect costs exceeds funds available, then the LEA will not be able to recover the total cost of the project or programs.
- Indirect costs may be recovered only to the extent that direct costs were incurred. The indirect cost rate is applied to actual direct expenditures, not to the total grant award, in order to determine the amount for indirect costs.

Determining The Amount Of Indirect Costs

Assuming that there are no additional restrictions related to indirect costs on a particular grant, a sample calculation is below:

Total Amount of Grant \$20,000
 Approved Indirect Cost Rate 2.23%
 Project Direct Cost Amount = Total Grant Award / (Indirect Rate plus 100%)
 $\$20,000 / (2.23\% + 100\%) = \$19,564$
 Project Indirect Cost Amount = Project Direct Costs * Indirect Cost Rate
 $\$19,564 * 2.23\% = \436

**Please note that when actually charging indirect costs to the grant, you multiply the actual direct expenditures by the approved indirect cost rate. For example, if only \$15,000 of direct expenditures were incurred, an LEA could only claim \$335 ($\$15,000 * 2.23\%$) of indirect costs.

What Federal Regulations Govern?

- Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards – also known as **2 CFR Part 200**.
- Requires federally assisted programs to bear, in addition to direct costs, their fair share of indirect costs.

Required To Charge Indirect Costs

- LEAs are required to charge indirect costs to all federal programs that they administer at the full rate approved by WVDE, unless the amount charged is restricted by specific provisions of a particular program.
- Indirect costs are **not** to be charged against state grant programs.

Indirect Costs

- The Federal government recognizes the fact that State and local governments are entitled to recover the cost of administering federal programs by charging the additional costs incurred proportionally to the programs that are being administered.
- The reason indirect cost plans were developed by the federal government is to create an approved methodology for local governments to recover these incremental costs by charging the appropriate programs a proportional share of the additional costs without having to maintain detailed cost accounting records.

Indirect Costs

- The Office of School Finance is charged with the statutory responsibility, under WVC §18-9B-9, of prescribing the requirements of a uniform system of management accounting.
- To ensure that the financial condition of each entity can be assessed accurately, all expenditures, including indirect costs, must be charged and reported in an accurate and consistent manner.

On-Line Forms

- WVDE has developed a website for calculating each county's restricted and unrestricted indirect cost rate.
- The website contains pre-populated data from each county's financial data file so it is essential that LEAs classify expenditures uniformly, consistently, and in accordance with the Chart of Accounts, published by the WVDE, Office of School Finance.

Indirect Costs – Risk of Not Charging

- By not charging indirect costs, an LEA's program costs are understated and the LEA's administrative costs are overstated. This is especially of concern in situations where a county board incurs a deficit unrestricted fund balance in its General Current Expense Fund. By not charging indirect costs, the deficit balance is overstated.

Indirect Costs and Budgeting

- All federal program directors are required to calculate indirect cost charges against all applicable program expenditures at the full rate approved by the WVDE for the year and include the cost as a separate expenditure in the program budget submitted to the WVDE for approval, unless specific approval has been granted by the WVDE Office of School Finance to do otherwise.
- If an approved indirect cost rate is not yet available for the upcoming fiscal year, the indirect cost rate that should be temporarily used for budgeting purposes is the most recently approved rate. Once the indirect cost rate for the upcoming year is approved, the budget should be updated to reflect the approved rate. WVDE program directors will review LEA budgets to ensure that adequate funds are budgeted for indirect costs each year.

Which Rate To Use?

- If you carry-over part of your grant funds into a new fiscal year, use the new indirect cost rate for the new fiscal year on those carry-over funds.
- **DO NOT** continue to use the prior year indirect cost rate that was approved in your original budget since it is beyond the effective date of that approved rate.
- When you do the carry-over entry, adjust to the new indirect cost rate.

QUESTIONS?



Thank You

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