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Guide for State and local government agencies: cost principles and procedures for establishing cost allocation plans and indirect cost rates for grants and contracts with the Federal government

United States. Department of Health, Education, and Welfare. Division of Financial Management Standards and Procedures

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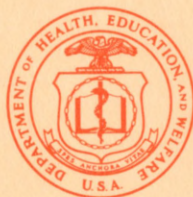
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A GUIDE FOR
STATE AND LOCAL GOVERNMENT
AGENCIES

COST PRINCIPLES
AND
PROCEDURES FOR ESTABLISHING
COST ALLOCATION PLANS AND INDIRECT COST RATES
FOR
GRANTS AND CONTRACTS
WITH THE
FEDERAL GOVERNMENT



U. S. DEPARTMENT OF
HEALTH, EDUCATION, AND WELFARE
DECEMBER 1976

OASC-10

**Cost Principles and Procedures for
Establishing Cost Allocation Plans and Indirect Cost Rates
for Grants and Contracts
with the Federal Government**

A GUIDE FOR STATE AND LOCAL GOVERNMENT AGENCIES

This brochure is for use by State and local government agencies in applying Federal Management Circular 74-4 (formerly Office of Management and Budget Circular A-87) which provides principles and standards for determining costs applicable to Federal grants and contracts performed by State and local government agencies.

The procedures in this brochure are applicable to grants and contracts awarded by all Federal agencies and have been endorsed by the Office of Management and Budget.

U.S. Department of Health, Education, and Welfare

David Mathews, Secretary

John D. Young, Assistant Secretary, Comptroller
Henry G. Kirschenmann, Director, Division of Financial
Management Standards & Procedures

This brochure replaces "A Guide for State Government Agencies" (OASC-6), and "A Guide for Local Government Agencies" (OASC-8).

**A GUIDE FOR
STATE AND LOCAL GOVERNMENT
AGENCIES**

Cost Principles
and
Procedures for Establishing
Cost Allocation Plans and Indirect Cost Rates
for
Grants and Contracts
with the
Federal Government



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20201

In 1969 and 1970, in keeping with the responsibilities assigned the Department of Health, Education, and Welfare by the Office of Management and Budget, we issued a separate brochure for States and for local governments providing guidance on OMB Circular A-87, Principles for Determining Costs Applicable to Grants and Contracts with State and Local Government. Those brochures, designated OASC-6 and OASC-8 respectively, contained the Circular itself and instructions on preparing the cost allocation plans required under the Circular. Since that time, the Circular has been reissued as Federal Management Circular 74-4.

This brochure consolidates and updates the two previous brochures and provides more comprehensive guidance based on our experience in implementing the Circular over the past six years. This brochure is a joint effort of this Department and other Federal Departments which award grants and contracts to States and localities and has been endorsed by the Office of Management and Budget.

We hope this brochure proves useful and welcome your comments on it.

Sincerely yours,

John D. Young

John D. Young
Assistant Secretary, Comptroller

A GUIDE FOR ESTABLISHING COST ALLOCATION PLANS AND INDIRECT
COST PROPOSALS FOR GRANTS AND CONTRACTS WITH
THE FEDERAL GOVERNMENT

PREFACE

This brochure contains Federal Management Circular 74-4, describes in general terms the process of indirect cost determination, and presents guidance on the preparation and submission of cost allocation proposals by State and local governments.

Federal Management Circular 74-4 was issued to meet an expressed need on the part of State and local governments for a more uniform approach to the problem of determining costs of federally-aided programs.

The Circular provides principles and standards for determining both direct and indirect costs applicable to Federal grants and contracts with State and local governments. The charging of joint or common costs against Federal grants and contracts requires the prior preparation of cost allocation plans. This brochure contains guidelines for State and local governments to follow in preparing those plans.

Circular 74-4 provides for the appointment of Federal cognizant agencies, that is, the designation of one Federal agency to approve State and local government cost allocation plans on behalf of all other Federal agencies. This brochure explains the assignment and approval process and lists Federal offices which may be contacted for further information.

A somewhat different approval process has been taken for State allocation plans as compared to local government allocation plans. All State allocation plans must be submitted to and approved by a Federal cognizant agency. Such a procedure is not practical at the local level. The number of local units of government that receive Federal funds is extremely large while the amount of Federal funds received by most of these units of government is modest. Therefore, local governments will not ordinarily need to submit their cost allocation plans to the Federal Government for prior approval as will the States. Instead, local governments will normally retain their plans for subsequent examination by Federal auditors or other Federal representatives. However, prior approval of plans for local governments is required whenever the cognizant Federal agency deems it necessary. Necessity is determined by the size or complexity of a local government, and the level of Federal involvement with it. Those local governments for which prior approval is necessary will be formally notified of the requirement by the cognizant Federal agency. The retention of plans by most local governments, rather than their submission to a cognizant Federal agency represents the major departure from the procedures established for States. For purposes of this brochure all Indian Tribal governments will use the guidelines applicable to local governments.

The procedures in this brochure are applicable to grants and contracts awarded by all Federal agencies and have been endorsed by the Office of Management and Budget.

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SECTION I—GENERAL INFORMATION—THE SIGNIFICANCE OF FEDERAL MANAGEMENT CIRCULAR 74-4

Objectives

Federal Management Circular 74-4 is one of several circulars issued by the Office of Management and Budget to bring about more efficient administration of Federal grants and contracts and a better relationship between States, localities, federally recognized Indian Tribal governments, and the Federal Government. FMC 74-4 provides the foundation for greater uniformity in the costing procedures of States and localities and in the reimbursement practices of Federal departments and agencies. It establishes a system whereby a single Federal department, called the cognizant agency, acts for all Federal departments in approving certain State and local costs associated with the performance of federally supported programs and projects. It removes several restrictions that had formerly been prevalent in the cost reimbursement policies of Federal sponsors, by providing that, except where otherwise restricted by the Circular or by law:

- (1) All indirect costs of a State or local department or unit performing a grant or contract are allowable, i.e., eligible for reimbursement, provided they are necessary for the efficient conduct of the grant or contract.
- (2) A necessary cost of a grant program is allowable regardless of where it is incurred within the State or local government complex.
- (3) The costs of services provided by central service type agencies to departments or units performing Federal grants or contracts are allowable regardless of whether there is an actual transfer of funds between the organizations involved.

However, it is important to note what the provisions of FMC 74-4 do not do:

- (1) They do not specify a particular form of organization, management technique, or method of accounting, as a condition of cost reimbursement under Federal grants or contracts; however, this does not preclude bilateral agreements between State or local agencies and the Federal government on organizational arrangements or personnel placement.
- (2) They do not identify the circumstances or dictate the extent of Federal and State or local participation in the financing of a grant or contract. Matching requirements of the various Federal programs are unaffected by FMC 74-4 and, where program legislation contains explicit restrictions on the reimbursement of particular costs, such restrictions are similarly unaffected.
- (3) They do not allow the reimbursement of general expenses required to carry out the overall responsibilities of State and local governments. Although these costs of general government are not explicitly defined in the Circular, examples are provided. The expenses of the judiciary, the State legislature and similar bodies such as county supervisors, county councils, and school boards, a central budget office, etc., fall into this category. However, an exception to this general prohibition is permitted where a direct benefit to a Federal program(s) can be clearly established. For example, the expenses incurred by a legislative auditor in a compliance review of a Federal program would be acceptable.

Costs Related to Grants and Contracts

The performance of Federal grants and contracts usually requires the expenditure of resources of various organizations within a State or local unit of government. The costs attendant to these resources are categorized in FMC 74-4 in two ways: (a) by organization level, those incurred by the department or units performing the grant or contract and those incurred by one or more central support organizations serving the performing department or unit such as a motor pool, a procurement office, or an accounting office, and (b) by type, direct or indirect. A direct cost is defined as one which can be specifically or readily identified with a grant or contract. An indirect cost is one which cannot be so identified, but rather which is incurred for the joint or common benefit of a grant or contract and other activities carried on by the State or locality, for example, the operation and maintenance of buildings, or the expenses of department heads and their immediate staff. Although there is no hard rule and some exceptions, in practice, the costs of central support organizations are generally treated as an indirect cost of departments or units performing grants and contracts.

One of the most significant aspects of FMC 74-4 is the recognition it gives to central support and indirect costs as costs of grants and contracts, and the procedures it prescribes for States and localities to claim, and the Federal Government to review and approve such costs. In essence, the Circular requires States and localities wishing to claim central support and/or indirect costs as charges against Federal awards, to prepare annual cost allocation plans. States are required to submit the plans for approval to a designated Federal department, called the cognizant agency. Local governments are required to retain their plans for subsequent Federal review unless directed by the cognizant agency to submit the plan for approval. The failure of a State or local government to comply with cost allocation plan require-

ments will act to preclude its recovery of central support and indirect costs as a charge against Federal grants and contracts.

Definitions

For the purpose of this Circular: (a) the term "State" means any of the several States of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, or any agency or instrumentality of a State exclusive of State institutions of higher education and hospitals, (b) the term "local government" means a local unit of government including specifically a county, municipality, city, town, township, local public authority, special district, intrastate district, council of governments, sponsor group representative organization, and other regional or interstate government entity, or any agency or instrumentality of a local government exclusive of institutions of higher education and hospitals, and (c) the term "federally recognized Indian Tribal government" means the governing body or a governmental agency of any Indian tribe, band, nation, or other organized group or community (including any native village as defined in Section 3 of Alaska Native Claims Settlement Act, 85 Stat 688) certified by the Secretary of the Interior as eligible for the special programs and services provided by him through the Bureau of Indian Affairs.

Use of Guidelines

"States" will use the guidelines applicable to state governments. "Locals" and federally recognized Indian Tribal governments will use the guidelines applicable to local governments.

Cost Allocation Plans and Negotiation Agreements

Costs incurred by a State or local government in connection with programs sponsored by the Federal government are eligible charges

against Federal grants and contracts whether incurred by the department or unit which receives or performs the Federal award or by another organization of that State or local government which provides supportive services to the department or unit. Cost allocation plans are the means by which such costs are identified in a logical and systematic manner for reimbursement under Federal grants and contracts.

There are two types of cost allocation plans. The first plan identifies and distributes the costs of services provided by support organizations to those departments or units performing Federal grants or contracts. It is referred to as a central service cost allocation plan or a State-wide or local-wide cost allocation plan. The second plan distributes the administrative or joint costs incurred within a performing (grantee or contractor) department or unit and the costs of services allocated to it under the central service cost allocation plan, to all work performed by that department or unit. This second type of cost allocation plan is commonly referred to as an indirect cost proposal.

The plans must be prepared annually and either submitted to the cognizant Federal agency for approval or retained for subsequent Federal review, as described in Section II. Federal departments and agencies will not honor claims for central service or indirect costs unless proposals are prepared and, where necessary, approved by the cognizant Federal agency.

It is not necessary that the cost allocation plans reflect all State or local support service costs or all department/unit indirect costs. But it is necessary that the plans reflect all costs for which a claim is to be made. Thus, for example, should a State or locality not seek reimbursement for the operation and maintenance of its facilities used in performing Federal grants and contracts, it need not include such costs in its plans.

A local government, as an alternative to preparing both a central service cost allocation plan and indirect cost proposal(s) may elect to prepare a consolidated plan. The consolidated plan will result in less cost recovery to the locality than it would likely receive if separate plans were prepared, but its relative ease of preparation may make it administratively attractive. However, a consolidated plan may not be used where a locality wishes to recover departmental indirect type costs either as a direct or an indirect cost.

The approval of cost allocation plans submitted by States and localities is formalized by a negotiation agreement signed by an authorized representative of the cognizant Federal agency. These agreements are reproduced and distributed by the Department of Health, Education, and Welfare to all Federal offices requesting them and constitute authority to Federal awarding agencies to accept claims for central service costs and indirect costs.

These plans and the approval procedures are further explained in Section II; sample formats are presented in Section V.

Coordinating Cost Plan Approvals

One of the primary objectives of FMC 74-4 is to bring a high degree of coordination and uniformity to the process by which central service and department or unit indirect costs are reviewed and approved by the Federal Government. To accomplish this objective certain Federal departments have been assigned responsibility, or cognizance, for approving those costs on behalf of all other Federal departments or agencies. FMC 74-4 provides that costs approved by the cognizant agency will be recognized by all Federal departments and agencies. Likewise, costs not approved by the cognizant agency will not be recognized.

Cognizance is generally assigned to the Federal department which has the greatest dollar involvement with a given State or locality or department within that State or locality. Thus, the Department of Health, Education, and Welfare is the cognizant agency for all State central service plans. It is also the cognizant agency for State departments of Health and Social Services, State Education Agencies, etc. Similarly, the Department of Housing and Urban Development is the cognizant agency for State and local housing authorities, and urban renewal agencies. Questions concerning cognizance of a particular State or locality or a department or unit within a given State or locality should be directed to the Federal department having the major dollar involvement or to the Financial Management Branch, Office of Management and Budget, Washington, D.C. 20503.

To augment the Federal-State relationship envisioned in FMC 74-4, arrangements can be made by the Department of Health, Education, and Welfare, when administratively feasible, to delegate to a State, responsibility for approval of local government cost allocation plans. Thus, a State may review and approve on behalf of HEW, the central service cost plans prepared by its counties.

Often, Federal grant funds awarded to States and localities are subsequently subgranted or contracted to lower tier organizations which either carry out or assist in carrying out the program for which the funds were provided. These lower tier organizations may be local units of government, colleges and universities, hospitals or other non-profit institutions. In such situations, the grantee is responsible for assuring that the Federal funds expended by the lower tier organization are properly spent and accounted for. This responsibility extends to a determination by the grantee that subgrantee and subcontractor claims for central service and indirect costs are determined in accordance with the Federal cost principles applicable to the lower tier organizations. In some instances, the lower

tier organization may itself be the direct recipient of Federal grants or contracts and will have had its central service and/or indirect costs approved by the Federal Government. In such cases, a higher tier State or locality may generally rely on the determinations of the Federal Government and should contact the Federal agency which approved the costs to assure that its determinations apply to the higher tier organization's situation.

In those instances in which the lower tier organization is not a direct recipient of Federal funds or has not received Federal approval of its costs, the higher tier State or locality is responsible for making the determination of acceptability.

In accordance with this concept, State Education Agencies are responsible for reviewing and approving the cost allocation plans of those local education agencies within their State.

Local Governments

Organizational authorities responsible for approving cost allocation plans may differ among cognizant Federal agencies. For example, in some agencies approval authority is assigned to an audit group, while in others it is assigned to a specialized negotiation unit(s) independent of audit. Questions regarding approval authorities within a Federal cognizant agency should be addressed directly to that agency.

Statutory Limitations

Some Federal awards are subject to laws that limit the amount of indirect costs that may be charged against them.

When the maximum amount of costs allowable under a statutory limitation or the terms of an agreement is less than the amount otherwise allocable to the agreement under

FMC 74-4, the amount not recoverable may not be shifted to other federally-funded programs.

Retention of Records and Documentation for Audit

The Federal retention and custodial requirements for records are contained in Attachment C, "Uniform Administrative Requirements for Grant-in-aid to State and local governments" (FMC 74-7). In general, it requires that financial records, supporting documents, statistical data, and all other records pertinent to Federal programs be retained for a period of three years. The retention period for cost allocation plans

submitted for approval to the cognizant Federal agency starts from the date of submission. The retention period for cost allocation plans which are prepared and retained by a local government, starts on the last day of the fiscal year (or other accounting period) covered by the plan.

Federal Sources for Circular 74-4 Information

State or local governments needing additional information regarding the preparation of central service cost allocation plans or indirect cost proposals should contact their cognizant Federal agency. The addresses of the Federal offices to contact are listed in Section VI.

**SECTION II—GUIDELINES FOR PREPARING STATE OR
LOCAL GOVERNMENT CENTRAL SERVICE COST ALLOCATION PLANS
AND INDIRECT COST PROPOSALS**

THE CENTRAL SERVICE COST ALLOCATION PLAN

Description and Content

State or local government agencies commonly render various support services to each other, e.g., facilities, motor pool, procurement, personnel administration, data processing, etc. In some instances these services are provided without charge to the recipient agency; in other instances an interagency charge or billing is made. Sometimes the services are funded through the regular appropriation process, sometimes as a revolving fund.

Under FMC 74-4 the costs of supporting agency services, regardless of how funded, or whether billed to departments or distributed through an allocation plan are eligible charges to Federal programs. The costs of these services are generally treated as indirect costs and included with the indirect costs generated within each program performing department or unit for allocation to Federal programs by means of an indirect cost rate, but sometimes they are properly treated as direct costs. Regardless of how treated a government agency that wishes to charge support service costs to Federal grants and contracts, must first prepare a central service cost allocation plan to allocate the central service costs to those departments or units which they benefit. There is only one exception to this requirement, local governmental units may prepare a consolidated central service cost allocation plan in lieu of preparing both a central service cost allocation plan and indirect cost proposals, if they qualify, by agreeing to the conditions cited in Exhibit F, Appendix 1 of Section V.

The preparation of a central service plan is not necessarily a complicated task. Rather it

involves three basic, logical, sequential steps:

- (1) Identification of the services and the costs of each service to be claimed.
- (2) Determination of the method for allocating the costs of each service to user departments of units.
- (3) Mathematical allocation of those costs to the user departments or units in the form of a single, formal, comprehensive proposal or plan.

A sample central service cost allocation plan is presented in Appendix 1 of Section V.

The plan must contain (but need not be limited to) the following schedules and narratives.

For services furnished but not billed to other government departments or units:

- (1) a description of the types of services provided and their relevance to Federal projects (see Section V, Appendix 1, Exhibit A, Schedule A-3).
- (2) the items of expense included in the cost of the service (see Section V, Appendix 1, Exhibit A, Schedule A-2).
- (3) the methods used in distributing the costs to benefiting departments or units (see Section V, Appendix 1, Exhibit A, Schedule A-1).
- (4) identification of the departments rendering the service and receiving the service (see Section V, Appendix 1, Exhibit A, Schedule A-1).
- (5) a summary schedule of the allocations of central service costs to benefiting operating departments (see Section V, Appendix 1, Exhibit A).

For services furnished and billed to other government departments or units:

- (1) items (1), (2), and (4) above.
- (2) a concise but complete description of the method used to determine the billing rate or amount for each billed service (Section V, Appendix 1, Exhibit A-1).
- (3) a concise but complete description of the accounting treatment of any under/over billed costs for the fiscal period (Section V, Appendix 1, Exhibit A-1).

In addition to the above data, the plan must also contain:

- (1) an organizational chart showing all departments and other units of the government even though they may not be shown as benefiting from the central service functions.
- (2) a certification by an authorized government official that the cost allocation plan has been prepared in accordance with applicable policies and procedures (see Appendix 2 of Section V).
- (3) A copy of financial statements prepared by either certified public accountants, licensed public accountants or State or local government auditors, or a copy of the official budget of that department/unit if the budget reports the actual expenditures for the year on which the proposal is based. If these are not available, proposals should be supported by other official financial documents generated either by the department or unit or higher tier government agency which can be used to substantiate the authenticity of the amounts proposed. Any differences between line items shown on the indirect cost proposal and line items shown on the supporting documentation must be reconciled. The initial proposal should include information which provides a clear understanding of the accounting

classification system employed, including a narrative description of the functions treated as indirect costs. Information on the accounting classification system and on the indirect cost narratives need only be updated in years other than the initial year.

Submission

A separate plan is required for each State/local government fiscal year for which costs are to be claimed. However, there are different requirements for States than for localities with respect to the submission of the plans to the Federal Government.

- (1) All State cost allocation plans must be submitted to the cognizant Federal agency for approval.
- (2) Local government cost allocation plans need be submitted for approval only upon request of the cognizant Federal agency or its authorized representative (in some instances, State agencies act as representatives). Otherwise, localities need only retain the plans in accordance with the retention requirements in Section I, and have them available for review by the Federal Government. A plan must be available as of the time a claim is made.

State cost allocation plans must be submitted to the cognizant Federal agency within six months after the last day of the State's fiscal year. Similarly, local governments that have been instructed by their cognizant Federal agencies to submit plans must do so within six months after the last day of their fiscal year.

It is essential that plans be submitted in a timely fashion. Upon specific request of the State or locality an extension of time for submittal of the plan may be granted by the cognizant Federal agency. Failure of a State or locality to prepare and submit as required,

a timely plan will cause that State or locality to become delinquent. Grant and contract awards to delinquent States and localities will not provide for the recovery of central service costs and such costs claimed against awards already made will be subject to disallowance.

Responsibility for approving cost allocation plans of individual States and local units of government has been assigned by the Office of Management and Budget to cognizant Federal agencies.

The Department of Health, Education, and Welfare is the cognizant agency for all State central service plans. Within HEW, the organization responsible for approving the plans is the Assistant Regional Director for Financial Management of the Federal region in which the State is located. An address listing of the regions is contained in Section VI.

A listing showing the Federal cognizant agency for State agencies and the largest local governments and U.S. Territories will be maintained by the Financial Management Branch, Office of Management and Budget. Generally, Federal cognizance of a particular State or local unit of government and territory is assigned to the Federal department or agency with the largest dollar involvement.

Federal Approval—Plans Requiring Submission

Cost allocation plans that are submitted for approval will be analyzed by the cognizant Federal agency to determine that (1) the costs of central services have been distributed to all benefiting activities, (2) the distribution is based on a method(s) which is reasonably indicative of the amount of services provided, (3) the services provided are necessary to the successful conduct of Federal programs, (4) the level of costs incurred are reasonable, and (5) the costs claimed are otherwise allowable in accordance with FMC 74-4.

On the basis of this review the Federal agency will take one of the following actions:

1. It will find the costs contained in the plan fully acceptable and will formalize its acceptability by a written agreement with the State or locality.
2. It will find the costs contained in the plan provisionally acceptable and will require the submission of additional data or an audit prior to reaching a final agreement with the State or locality.
3. It will determine that the plan is incomplete or otherwise unacceptable. In such instances, the organization which submitted the plan will be advised of the reasons why the plan is unacceptable. The cognizant Federal agency will cooperate with the State or locality in developing an acceptable plan.

Federal Approval—Plans Not Requiring Submission

Cost allocation plans that must be prepared and retained but which do not have to be submitted are subject to review by the Federal government to determine that (1) the costs of central government services have been distributed to all benefiting government activities, (2) the distribution is based on a method(s) which is reasonably indicative of the amount of services provided, (3) the services provided are necessary to the successful conduct of Federal programs, (4) the level of costs incurred are reasonable, and (5) the costs claimed are otherwise allowable in accordance with FMC 74-4.

The Indirect Cost Proposal

Description and Content of Proposal. The costs of State or local government departments or units performing federally-supported programs consists of two basic categories—direct and indirect. Direct costs are those which can be specifically or readily identified

with a particular grant or contract or other cost objective. Indirect costs (or overhead) are those incurred for a common or joint purpose benefiting more than one cost objective, and not directly assignable to cost objectives benefited without effort disproportionate to the results achieved. Indirect costs include both (1) the overhead costs originating in a State or local department or unit performing a grant or contract and (2) the costs of central government services distributed through the central service cost allocation plan and not otherwise treated as direct costs. Indirect costs are normally charged to Federal awards via an indirect cost rate. The rate is simply the percentage relationship of indirect costs to direct costs, generally salaries and wages or total direct cost. The computation of the indirect cost rate, supported by workpapers and other documentation is called an indirect cost proposal. All indirect cost proposals must be supported by the following documentation:

- (1) A certification by an authorized government department or unit official that the proposal has been prepared in accordance with applicable policies and procedures (see Appendix 2 of Section V).
- (2) A copy of financial statements prepared by either certified public accountants, licensed public accountants or State or local government auditors, or a copy of the official budget of that department/unit if the budget reports the actual expenditures for the year on which the proposal is based. If these are not available, proposals should be supported by such other official financial documents generated either by the department or unit or higher tier government agency which can be used to substantiate the authenticity of the amounts proposed. Any differences between line items shown on the indirect cost proposal and line items shown on the supporting documentation must be reconciled. The initial proposal should

include information which provides a clear understanding of the accounting classification system employed, including a narrative description of the functions treated as indirect costs. Information on the accounting classification system and on the indirect cost narratives need only be updated in years other than the initial year.

- (3) A schedule of Federal fund expenditures made during the fiscal year showing for each Federal department and agency: (a) direct salaries and wages, (b) other direct expenditures, and (c) total expenditures.
- (4) A schedule of items of costs that are treated inconsistently, that is, (a) items which are charged as direct costs to some Federal grants and contracts but not to all, the costs not charged direct being treated as an indirect cost and, (b) items which are treated as direct costs for Federal grants and contracts but not for non-Federal activities and projects, the costs not charged directly being treated as an indirect cost.

The schedule must show the items treated inconsistently, the reasons for the inconsistency, the amounts treated as indirect costs, the amounts charged as direct costs to Federal grants and contracts, the grants and contracts charged and the Federal department and agency which made the awards.

- (5) A chart showing the organizational structure of the agency during the period for which the proposal applies, along with a functional statement(s) noting the duties and/or responsibilities of all units that comprise the agency. Once submitted, only revisions need be submitted with subsequent proposals.

When the indirect cost proposal must be submitted to the cognizant Federal agency or its authorized representative for approval, the

supporting documentation must accompany it. When the indirect cost proposal does not have to be submitted for approval, the supporting documentation must be retained together with the prepared indirect cost proposal for subsequent Federal review.

Submission

An indirect cost proposal must be prepared by each State and local government department/unit that wishes to claim indirect costs on Federal grants or contracts. A separate proposal is required for each State/local government fiscal year for which costs are to be claimed. However, there are different requirements for States than for localities with respect to the submission of indirect cost proposals to the Federal government:

- (1) All State department/unit indirect cost proposals must be submitted to the cognizant Federal agency for approval.
- (2) Local department/unit indirect cost proposals need be submitted for approval only when requested by the cognizant Federal agency or its authorized representative.

Local governments not instructed to submit proposals, nevertheless must substantiate claims for indirect cost reimbursement. A prepared indirect cost proposal must be available as of the time a claim is made and must be retained in accordance with the retention requirements in Section I.

Indirect cost proposals must be submitted to the cognizant Federal agency within six months after the close of each fiscal year. It is essential that proposals be submitted in a timely fashion. Upon specific request of a State or local department/unit, an extension of time for submittal of the proposal may be granted by the cognizant Federal agency. Failure of a State or locality to prepare, and submit as required, a timely proposal will

cause that State or locality to become delinquent. Grant and contract awards made to a delinquent State or locality will not provide for indirect costs and indirect costs claimed against awards already made will be subject to disallowance.

Responsibility for approving indirect cost proposals of individual State and local departments or units has been assigned by the Office of Management and Budget to cognizant Federal agencies. A listing of the Federal cognizant agencies is maintained by the Financial Management Branch, Office of Management and Budget. Generally, Federal cognizance of a particular department or unit is assigned to that Federal department or agency with the largest dollar involvement.

Federal Approval—Indirect Cost Proposals Requiring Submission

Indirect cost proposals that are submitted for approval will be analyzed by the cognizant Federal agency to determine that (1) the distribution of indirect costs is based on a method(s) which is reasonably indicative of the amount of services provided to federally supported activities and all other activities performed by the department or unit, (2) the services provided are necessary to the successful conduct of the Federal programs, (3) the level of costs incurred are reasonable, (4) costs for central services contained therein, if any, are charged in conformance with a central service cost allocation plan approved by the Federal cognizant agency, and (5) the costs claimed are otherwise allowable in accordance with FMC 74-4.

On the basis of this review the Federal cognizant agency will take one of the following actions:

- (1) It will find the proposal fully acceptable and will formalize its acceptability by a written agreement with the submitting department or unit on the rate

at which indirect costs may be charged to Federal programs.

- (2) It will find the proposal acceptable as a basis for provisionally funding Federal programs, but will require the submission of additional data or require an audit prior to reaching a final agreement on the actual rate at which indirect costs may be charged to Federal programs.
- (3) It will determine that the proposal is incomplete or otherwise unacceptable. In such instances, the organization which submitted the proposal will be advised by letter of the reasons why the proposal is unacceptable. The Federal cognizant agency will cooperate with the organization in developing an acceptable proposal.

Federal Approval—Indirect Cost Proposals Not Requiring Submission

Indirect cost proposals that must be prepared and retained but which do not have to be submitted are subject to review by the Federal government to determine that, (1) the distribution of indirect costs is based on a method(s) which is reasonably indicative of the amount of services provided to Federally supported activities and all other activities of the department or unit, (2) the services provided are necessary to the successful conduct of Federal programs, (3) the level of costs incurred are reasonable, (4) costs for central government services are charged in conformance with the central service cost allocation plan, and (5) the costs claimed are otherwise allowable in accordance with FMC 74-4. A prepared indirect cost proposal must be available as of the time a claim is made and must be retained in accordance with the retention requirements in Section I.

Federal Approval—Local Education Agency Proposals

In accordance with procedures of the Department of Health, Education, and Wel-

fare, Local Education Agencies (LEA's) should submit their indirect cost proposals to their State Department of Education for approval. The local education agency proposal should be submitted to the State department in sufficient time for approval of a rate(s) for the next fiscal year (e.g., the State department should require the submittals by March 1, 1977 in order to approve LEA rates for the fiscal year beginning July 1, 1977).

State departments/agencies must use the principles of FMC 74-4 in evaluating and approving the LEA indirect cost rates. Recoveries of indirect costs by LEA's under programs that restrict reimbursement of indirect costs to those generated by the programs, as opposed to costs benefiting the programs (viz., "supplement not to supplant" legislative language) are limited to general and administrative type costs. Costs associated with the use of facilities are not allowable (i.e., operation and maintenance expenses and use charges or depreciation on buildings and equipment). The agreed upon indirect cost rates must be forwarded to the HEW Assistant Regional Director for Financial Management who will distribute them to affected Federal agencies.

State Departments of Education should submit their proposed procedures for reviewing indirect cost rate proposals submitted by the LEA's to the HEW Assistant Regional Director for Financial Management for approval. State Departments of Education that have received approval from the Assistant Regional Director for Financial Management need subsequently submit only changes that are made to previously approved procedures.

Methods of Calculating Department or Agency Indirect Costs

Because of the wide variety of situations to which it applies, FMC 74-4 describes the methods of developing indirect costs in somewhat general terms. There are many methods

for grouping and allocating costs to federally-sponsored activities. However, regardless of the methods used in putting a proposal together it must account for all expenditures of the department/unit including nonappropriated funds, and miscellaneous fund expenditures.

The use of a single, composite rate applicable to all Federal grants and contracts awarded to a particular department or unit is desirable from the standpoint of administrative simplicity. When, however, the use of such a rate would cause a significantly inequitable distribution of indirect costs to Federal programs, more than one rate should be developed.

The appropriateness of the use of more than one rate for a given department or unit depends on the extent to which the various activities performed by the organization benefit from the services whose costs comprise the indirect cost pool. For example, if all activities benefit substantially equally, a single rate would suffice; but if one or more activities benefit more or less from the services than do other activities and the cost difference is substantial, a single rate would not be acceptable.

Also, it may occasionally be necessary to develop a special rate because legislation affecting a particular program limits the amount or type of indirect costs that may be charged to it. Such a rate is referred to as a restricted rate. A discussion of various methods that may be used for indirect cost rate computations follows:

Single rate methods.—When federally supported activities and other activities conducted by a State or local government department or unit benefit to the same relative degree from its indirect costs, or where the Federal activity is not substantial in amount, it is not necessary to make a series of indirect cost distributions. Instead, a single rate may be developed.

This involves five basic steps:

1. Identifying all the activities carried on by the department or unit and their attendant costs. All activities must be included regardless of the source of funds used to pay for them.
2. Incorporating those costs allocated to the departments or units through the central service cost allocation plan.
3. Classifying the activities and their costs as direct or indirect.
4. Eliminating from the indirect costs capital expenditures and those costs stipulated as unallowable in FMC 74-4.
5. Computing the rate by dividing the total remaining indirect costs by the direct cost base selected for distribution of the indirect costs. In most instances the types of costs allocated at the departmental level are most equitably allocated on a base of total direct salaries and wages or total direct salaries and wages plus applicable fringe benefits and, hence, these bases are preferred. However, other bases, such as total direct costs less capital expenditures, may be used when they can be demonstrated to be more equitable.

Section V, Appendix 1, Exhibit B portrays one method, called the short form method, for computing a single, composite departmental indirect cost rate. This method is used where indirect costs at the division or bureau level of a department or unit cannot be separately determined. The indirect cost pool is comprised of only the departmental or unit indirect costs and the costs allocated through the approved central service cost allocation plan.

Section V, Appendix 1, Exhibit C portrays another method, the Simplified Method, for computing a single rate. This method is used when indirect costs at the division, bureau, or other level below the departmental or unit level can be identified and the ratios between the divisional/bureau indirect costs to the selected direct cost base for each division/bureau do not differ significantly.

Methods Using More than One Rate

The need for the computation of more than one rate would exist where Federal activities performed or administered by a department or unit uses significantly more or less of the departmental services reflected in the indirect cost pool than the department's or unit's other activities.

Likewise, separate rates may be required for divisions within a department or unit whose indirect costs are disproportionate to other divisions within the department or unit.

Section V, Appendix 1, Exhibit D describes an Alternate Simplified Method for computing multiple rates. This method is basically the same as the Simplified Method except that it recognizes the difference in indirect costs incurred at the division or bureau level. The result is a rate for each division or bureau within the department or unit.

Section V, Appendix 1, Exhibit E describes the Multiple Rate Method. It is the most precise method and also the most complex. Under the multiple rate method, the indirect costs of a department or unit are initially grouped into various functional categories or pools, such as general administration, divisional administration, building occupancy costs, etc. Each pool of costs is then distributed to, or divided among, the benefiting divisions and bureaus of a department or unit by means of a base which best measures the relative degree of benefit which these organizations derive from that pool. Careful judgment is required to establish the appropriate number of pools, giving consideration to the materiality of the amounts involved.

The Multiple Rate Method involves eight basic steps:

1. Identifying all the activities carried on by the Department or unit and its divisions/bureaus and their attendant costs. All activities must be included

regardless of the source of funds used to pay for them.

2. Incorporating those costs allocated to the department or unit through the federally approved central service cost allocation plan.
3. Classifying the activities performed at the department level and at each division/bureau and their cost as direct or indirect.
4. Eliminating from indirect costs, capital expenditures and those costs stipulated as unallowable in FMC 74-4.
5. Classifying the departmental indirect costs which benefit the divisions and bureaus of the department or unit in significantly different proportions into functional cost groupings (pools).
6. Selecting an appropriate base for distribution of each classified pool of indirect costs. See Appendix 3 of Section V for examples of distribution bases.
7. Distributing each classified pool to the benefiting divisions or bureaus.
8. Calculating an indirect cost rate for each division or bureau of a department or unit by relating the total indirect costs of each division/bureau to that division's/bureau's direct cost base. The indirect costs of a division/bureau are the sum of its own indirect costs plus costs assignable to it from the department level and the central service allocation plan.

In most instances the types of costs allocated at the departmental level are most equitably allocated on a base of direct salaries and wages or direct salaries and wages plus fringe benefits and, hence, these bases are preferred. However, other bases, such as total direct costs less capital expenditures, may be used when they can be demonstrated to be more equitable.

Use of a Restricted Method

Although there are few Federal statutes which restrict the full recovery of indirect

costs on grants, when such restrictions exist it may be necessary to develop a special rate for the affected program. Such rates are generally referred to as "restricted" rates.

The procedure for developing a restricted rate is the same as that used for developing non-restricted rates except that it includes an additional step, the elimination from the indirect cost pool(s) of those costs for which the law prohibits reimbursement. A State or local government conducting programs with indirect cost restrictions are advised to contact their cognizant agency for guidance in developing their cost allocation plans.

Applying Rates to Grants and Contracts

The indirect cost rate is the means by which the amount of indirect costs applicable to a given grant or contract is computed. The computation is a simple multiplication of the base costs chargeable to the grant or contract by the rate. For example, assume rates of 14% and 12% have been established for an organization's fiscal years ending June 30, 1976 and June 30, 1977 respectively. Also assume a grant for \$50,000 and associated indirect costs was awarded effective March 1, 1976 and that \$18,000 of direct costs were expended by June 30, 1976. The rate of 14% would be applied to the \$18,000, and the 12% rate would be applied to the \$32,000 spent during FY 1977, the last eight months of the grant year. The total amount chargeable to the grant would be \$6,360.

Alternative Types of Agreements

There are three types of agreements under which the Federal cognizant agency may approve central service cost allocation plans and indirect cost proposals: Provisional-final, predetermined, and fixed with carry-forward.

Provisional-Final

In practice, central service cost allocation plans and indirect cost proposals are sub-

mitted prior to the fiscal year to which they apply. Thus, they reflect either a past period's cost experience or a projection of a future year's expected costs. Since a State or local government's actual costs do not become known until the end of its fiscal year and there needs to be some arrangement by which costs can be recovered as incurred, the Federal cognizant agency may enter into an agreement under which the State or local proposal is provisionally accepted using either: (1) a prior year's actual costs, (2) projected costs for the fiscal year under consideration, or (3) a combination of historical costs and projected costs. Subsequently, at the end of the fiscal year when the actual costs are known, the State or locality will need to submit a revised proposal reflecting its actual costs. Another agreement, called a final agreement, will then be negotiated and the State or local government may retroactively revise the claims it made against Federal grants and contracts.

This procedure, however, has two drawbacks, (a) it entails additional administrative effort for both the State or locality and the Federal Government in negotiating two agreements for the same period and in processing retroactive claims, and (b) it could result in a loss in recovery to the State or locality if the amount or rate finally agreed to is greater than that provisionally agreed to and there are no Federal funds available to cover the excess, or, conversely, if the final settlement is less than that provisionally agreed to and a repayment is due the Federal Government, it may create a hardship to the State or locality. To avoid these situations, predetermined or fixed with carry-forward agreements may be considered.

Predetermined

A predetermined agreement is a firm agreement, not subject to revision except in the most unusual circumstance and when there is substantial inequity to either the State or

local government or the Federal Government. Like the provisional-final agreement, it is negotiated in advance of the fiscal period to which it applies. The Federal cognizant agency will enter into a predetermined agreement only when it can assure itself that the amounts or rate agreed on will not result in a claim to the Federal Government in excess of the proposer's actual costs. Comparable caution is generally exercised by the proposer to assure that it does not inadvertently incur more indirect costs than planned.

Because of the potential danger of over or under recovered costs inherent in the predetermined agreement, it is used sparingly. Because a predetermined rate requires an advance agreement between the proposing organization and the Federal cognizant agency, it cannot be used by local units of government which retain their proposals rather than submitting them for review and approval.

Fixed with Carry-Forward

The fixed with carry-forward (FCF) agreement incorporates the desirable characteristics of both the provisional and predetermined agreements. Like the predetermined agreement, the FCF agreement is based on an estimate of a future period's costs and is not subject to revision. However, differences between the estimated costs and actual costs, when they become known, are includable (carried-forward) as an adjustment in a subsequently proposed cost plan of the preparer State or local government. The carry-forward computation is shown in Section V, Appendix 5.

The fixed rate with carry-forward agreement cannot be used where there is only short term or widely fluctuating Federal funding, or where there is likelihood of organizational change, or a fluctuating level of operation which would make the projection of costs unrealistic.

SECTION III

QUESTIONS AND ANSWERS

SECTION III—QUESTIONS AND ANSWERS

A. Application of Principles

Q. IS FEDERAL MANAGEMENT CIRCULAR 74-4 MANDATORY FOR USE BY BOTH STATES AND LOCAL GOVERNMENTS?

A. Yes. Paragraph A-3 of Attachment A to the Circular states that the principles will be applied by all Federal agencies in determining costs incurred by State and local governments under Federal grants and cost reimbursement type contracts (including subgrants and subcontracts) except those with (a) publicly financed educational institutions subject to FMC 73-8, and (b) publicly owned hospitals and other providers of medical care subject to requirements promulgated by the sponsoring Federal agencies.

Q. FEDERAL MANAGEMENT CIRCULAR 74-4 STATES THAT IT DOES NOT APPLY TO GRANTS AND CONTRACTS WITH (A) PUBLICLY FINANCED EDUCATIONAL INSTITUTIONS SUBJECT TO FEDERAL MANAGEMENT CIRCULAR 73-8 AND (B) PUBLICLY OWNED HOSPITALS AND OTHER PROVIDERS OF MEDICAL CARE SUBJECT TO REQUIREMENTS PROMULGATED BY THE SPONSORING FEDERAL AGENCIES. WHAT IS THE INTENT OF THIS STATEMENT AND HOW DOES IT AFFECT THE REIMBURSEMENT OF COSTS?

A. Federal cost principles are designed to be compatible with the organizational structure, accounting systems and programs conducted by specific types of organizations which perform Federal grants and contracts. FMC 74-4 was designed to be compatible with the type of operations conducted by State and local government. The organization and operations of colleges and universities and hospitals differ markedly from that of State and local governments and, hence, there are

special cost principles for them, (FMC 73-8 for colleges and universities and the Medicare/Medicaid/HEW research cost principles for hospitals). These principles recognize State and local central service costs and departmental indirect costs allocable under the procedures of FMC 74-4.

Q. WILL THE INDIRECT COSTS ARRIVED AT BY THE APPLICATION OF THE INDIRECT COST RATE PERCENTAGE BE REIMBURSED TO STATE AND LOCAL GOVERNMENTS?

A. The indirect costs which are determined to be associated with Federal programs in accordance with the procedures in FMC 74-4 will be recognized as part of the total cost of the Federal projects, except where restricted or prohibited by law. The extent to which such costs are reimbursed is a matter for determination between the Federal awarding agency and the recipient State or local unit of government.

B. Federal Cognizance

Q. WHAT FEDERAL AGENCY WILL BE RESPONSIBLE FOR DETERMINING AND REASSIGNING NEGOTIATION AND AUDIT COGNIZANCE FOR STATE AND LOCAL AGENCIES UNDER FMC 74-4?

A. The Office of Management and Budget working in cooperation with the other Federal departments and agencies is responsible for determining and reassigning negotiation and audit cognizance for State and local agencies.

Q. MAY ANOTHER FEDERAL AGENCY QUESTION THE COSTS INCLUDED IN A CENTRAL SERVICE COST ALLOCATION PLAN SUBMITTED TO AND APPROVED BY A COGNIZANT FEDERAL AGENCY?

A. Cognizant Federal agencies will coordinate the approval of central service plans with the other Federal agencies affected. Accordingly, Federal agencies will accept as part of the costs of a particular State or local government agency, those costs represented as central service costs provided they are in accord with the amounts set out in the negotiation agreement signed by representatives of the State or local government and the cognizant Federal agency.

Q. WILL AN INDIRECT COST RATE(S) ESTABLISHED FOR A STATE OR LOCAL DEPARTMENT BY A COGNIZANT FEDERAL AGENCY BE ACCEPTED BY OTHER FEDERAL AGENCIES THAT HAVE ACTIVE PROGRAMS WITH THE SAME STATE DEPARTMENT?

A. Federal agencies have determined which Federal agency will have negotiation responsibility at State and local departments where more than one Federal agency has active programs. Generally, the Federal agency with the predominant interest in terms of program dollars will be the cognizant Federal agency. This means, for example, that the Department of Health, Education, and Welfare will determine indirect cost rates at State and local departments where the Department has the predominant dollar interest. The rates negotiated by the Department will be accepted by all Federal agencies that also have programs at these same State and local departments. In making such determinations the cognizant Federal agency will coordinate its activities with the other Federal agencies affected to the extent deemed necessary prior to reaching an agreement with the State or local department concerned.

Q. WHICH FEDERAL AGENCY WILL BE RESPONSIBLE FOR THE AUDIT OF COSTS OF PROGRAMS ADMINISTERED BY STATE AND LOCAL GOVERNMENTS UNDER GRANTS FROM AND CONTRACTS WITH THE FEDERAL GOVERNMENT?

A. The Department of Health, Education, and Welfare will be responsible for the audit of costs resulting from a State central service cost allocation plan, the results of which will be accepted by other Federal agencies. The Federal agency that has negotiation cognizance for indirect cost proposals at the State or local department level will also be cognizant for audit of these costs. That Federal agency that has the preponderance of dollar activity within a city, county or other subdivision will be cognizant for both audit and negotiation of local central service cost allocation plans. However, changes in cognizance may be required from time to time in Federal agency assignments as material changes in preponderance of Federal dollar activity occur.

Q. WHERE CAN STATES AND LOCAL GOVERNMENTS RECEIVE ADDITIONAL INFORMATION OR CLARIFICATION ON THE IMPLEMENTATION OF FMC 74-4?

A. States and local governments should contact the Federal agency that has been assigned cognizance for either central service cost allocation plans or individual government department indirect cost proposals.

C. Definitions

Q. TO WHAT DOES THE EXPRESSION "COST ALLOCATION PLAN" REFER?

A. A cost allocation plan refers to a document that identifies, accumulates, and distributes allowable costs to grants and contracts and identifies the procedures used in making such distribution. It refers to both the central service cost allocation plan which is used to allocate the costs of central government services to benefiting government departments, and the indirect cost proposals of those departments or units performing grants and contracts.

Q. WHAT IS AN INDIRECT COST RATE?

A. An indirect cost rate is the ratio of an organization's indirect costs to some element of its direct costs, e.g., direct salaries and wages. Once determined, the rate is used to compute grantee indirect cost entitlement. The entitlement is accomplished by multiplying the indirect cost rate by the direct salaries and wages charged to a grant or contract. An indirect cost rate is the net product of an indirect cost proposal.

D. Preparation and Use of Plans

Q. WHO IS RESPONSIBLE FOR THE PREPARATION OF STATE AND LOCAL CENTRAL SERVICE COST ALLOCATION PLANS AND INDIRECT COST PROPOSALS?

A. It is the responsibility of each State and local government to prepare timely central service plans and indirect cost proposals where indirect cost reimbursement is sought.

Q. ARE THERE ANY CRITICAL AREAS THAT STATE AND LOCAL GOVERNMENTS SHOULD GIVE PARTICULAR EMPHASIS TO IN THE DEVELOPMENT OF A CENTRAL SERVICE COST ALLOCATION PLAN AND IN THE PREPARATION OF INDIVIDUAL INDIRECT COST PROPOSALS?

A. State and local governments must be especially alert to inconsistent costing practices, i.e., the treating of a type of expense such as occupancy or fringe benefits as both a direct and indirect cost. Inconsistent costing invariably results in disallowed claims.

Q. MUST THE INDIRECT COST PROPOSAL OR THE CENTRAL SERVICE COST ALLOCATION PLAN BE PREPARED CENTRALLY FOR EACH STATE OR LOCAL DEPARTMENT PERFORMING UNDER FEDERAL GRANT PROGRAMS?

A. There is no requirement that an indirect cost proposal be prepared by any designated

State or local government organization. Proposals may be prepared by each of the government departments performing under Federal grants or they may be prepared in a central office. However, while the State or local central service cost allocation plan need not be prepared centrally, it must be prepared as a single document.

Q. MUST A STATE OR LOCAL GOVERNMENT PREPARE A CENTRAL SERVICE COST ALLOCATION PLAN?

A. The preparation of a central service cost allocation plan is only required where a State or local government wishes to recover the costs of central services that benefit Federal programs conducted in or by State or local government departments. A State or local central service cost allocation plan is not required if a State or local government elects not to make a claim for recovery of central service type costs against Federal awards.

Q. HOW WILL A CENTRAL SERVICE PLAN BE USED?

A. The central service plan is used to distribute allowable central service costs to each of the individual government departments benefited, in order that they might include them in their indirect cost proposal.

Q. HOW WILL THE STATE OR LOCAL GOVERNMENT, AND OTHER FEDERAL AGENCIES, BE NOTIFIED OF COST ALLOCATION PLANS THAT HAVE BEEN SUBMITTED AND APPROVED?

A. The cognizant Federal agency will reduce to writing, in the form of a negotiation agreement, the results of the negotiation it has concluded with State or local authorities. The agreement will be signed by representatives of both the cognizant Federal agency and the State or local government and will be distributed to other Federal agencies by the Department of Health, Education, and Welfare. A negotiation agreement will be issued

for the fiscal years affected and will include amounts or percentages that have been agreed to as allowable for inclusion in the various State or local departments' indirect cost proposals.

Q. DO SMALL CITIES OR COUNTIES WITH A MINIMAL AMOUNT OF FEDERAL GOVERNMENT ACTIVITY HAVE TO PREPARE A CENTRAL SERVICE COST ALLOCATION PLAN?

A. Small cities and counties who feel that the preparation of a central service cost allocation plan under the regular method is burdensome, may elect to establish their costs under a method that combines both the central service cost allocation plan and indirect cost proposals. This method however, results in less cost recovery than would likely result using the regular method, so cities and counties will have to determine whether this approach is suited to their needs. The method is illustrated in Section V, Appendix 1, Exhibit F.

Q. HOW WILL THE FEDERAL GOVERNMENT ASSURE ITSELF THAT CENTRAL SERVICE COST ALLOCATION PLANS AND INDIRECT COST PROPOSALS THAT HAVE BEEN SUBMITTED HAVE BEEN PROPERLY PREPARED?

A. The Federal Government will review each central service cost allocation plan and indirect cost proposal submitted to assure itself that the plans and proposals have been prepared properly. Authorized State or local government representatives will be required to certify to the correctness of the cost allocation plans.

Q. THE SAMPLE FORMATS ILLUSTRATE ONE METHOD OF COMPUTING A CENTRAL SERVICE COST ALLOCATION PLAN, FOUR METHODS FOR COMPUTING AN INDIRECT COST RATE AND ONE METHOD OF COMPUTING A CONSOLIDATED LOCAL CENTRAL SERVICE COST

ALLOCATION PLAN AND INDIRECT COST PROPOSAL. ARE STATE AND LOCAL GOVERNMENTS RESTRICTED TO THESE BASIC METHODS?

A. States and local governments should use the cost allocation plans in the sample formats. A format materially different than that shown in the samples may be used only if prior approval is obtained from the cognizant Federal agency. Less detail than that shown in the sample format for the central service plans will not be acceptable. Federal agencies will recognize any of the four sample indirect cost proposal formats as long as the format selected gives effect to statutory requirements of the various Federal programs performed in the proposing department. However, it is recognized that differences in government laws, accounting systems, and policy directives may require deviations from the recommended format in some instances. Deviations will be considered if they conform with generally accepted cost accounting principles, do not conflict with Section C., Attachment A. of FMC 74-4 and are approved by the cognizant government agency. A State or local government need not use the same format for all State or local government departments but may elect the format which in each case is most appropriate to the department.

E. Specific Items of Cost

Q. ATTACHMENT B, SECTION C. OF THE CIRCULAR IDENTIFIES COSTS THAT ARE ALLOWABLE WITH APPROVAL OF THE GRANTOR AGENCY. IS APPROVAL NECESSARY WHEN THE STATE OR LOCAL GOVERNMENT TREATS THESE COSTS AS INDIRECT COSTS?

A. To the extent that costs in Attachment B, Section C. of the Circular are treated as indirect costs by a State or local government, negotiation of the indirect cost proposal(s) by the responsible Federal agency shall consti-

tute approval of the Section C costs included in the proposal. Where Section C costs are to be treated as direct program costs, necessary approval must be obtained from the Federal department or agency which awarded the grant or contract.

Q. FMC 74-4 STATES THAT WHEN THE DEPRECIATION METHOD OF COMPENSATION FOR THE USE OF BUILDINGS, CAPITAL IMPROVEMENTS, AND EQUIPMENT IS FOLLOWED, ANY METHOD OF COMPUTING DEPRECIATION MAY BE USED. HOW WILL FEDERAL AGENCIES INTERPRET THIS?

A. Depreciation is intended to spread the cost of an asset over its useful life. With rare exceptions, the depreciation of assets owned by States and localities occurs at approximately the same rate throughout their life. Thus, the straight line method of depreciation is always used for general purpose buildings and equipment and is used almost exclusively for all other assets.

Q. ARE THERE ANY EXCEPTIONS TO THE GENERAL RULE THAT THE COMPUTATION OF DEPRECIATION OR USE ALLOWANCE WILL BE BASED ON ACQUISITION COST?

A. There is one exception to this general rule and it applies only in the special case of donated assets. Depreciation or use charge will be recognized on the fair market value at the time of acquisition of the donated asset.

Q. THE CIRCULAR STATES THAT ACQUISITION COST MAY BE BASED ON A REASONABLE ESTIMATE IF ACTUAL COST RECORDS HAVE NOT BEEN MAINTAINED. ARE THERE ANY GUIDELINES ON WHAT WILL BE ACCEPTED AS A REASONABLE ESTIMATE IF ACTUAL COST RECORDS HAVE NOT BEEN MAINTAINED?

A. There are no definitive guidelines on what will be accepted as a reasonable estimate in lieu of actual cost records. However, if in the opinion of the cognizant Federal agency, depreciation or use charges based on estimated acquisition costs are material in amount, the Federal agency may require that acquisition cost be based on an estimate performed by independent and professional appraisers or by other similar independent valuations. States and local governments should seek assistance from their cognizant Federal agency in developing an alternative method where actual cost records have not been maintained.

Q. MAY CHARGES TO FEDERAL PROGRAMS BE BASED ON SUCH FACTORS AS REPLACEMENT COSTS, COMMERCIAL CATALOG PRICES OR COMPARABLE COMMERCIAL BILLING RATES?

A. No. Charges to Federal programs must be based on costs actually incurred.

Q. ATTACHMENT B, SECTION D.8 OF FMC 74-4 STATES THAT LEGISLATIVE EXPENSES ARE UNALLOWABLE. DOES THIS PROHIBIT THE RECOVERY OF THE COSTS OF LEGISLATIVE AUDITORS?

A. To the extent that legislative auditors conduct regularly scheduled cost postaudits of government departments that perform Federal grants and contracts, and the Federal agreements benefit from the incurrence of this cost, then the cost is allowable. Audits conducted for investigative purposes or pursuant to data gathering for appropriation hearings are not allowable.

Q. SOME GRANT PROGRAMS ARE AWARDED TO THE OFFICE OF THE GOVERNOR OF A STATE, TO THE CHIEF EXECUTIVE OF A POLITICAL SUBDIVISION, THE COUNTY SUPERVISOR, CITY COUNCIL, SCHOOL BOARD OR OTHER SIMILAR TYPE BODY. ARE THESE GRANTS PRECLUDED FROM RE-

COVERING INDIRECT COSTS UNDER THE CIRCULAR?

A. The general expenses required to carry out the overall responsibilities of these offices are unallowable. Attachment B, Section D.6, of the Circular identifies them as a general expense of Government and therefore an unallowable cost. However, if special identifiable expenses were incurred to satisfy a Federal grant or contract requirement, they would be allowed if they otherwise met the standards of allowability provided in the Circular.

F. Other

Q. HOW CAN A GRANTEE DISTINGUISH BETWEEN A DIRECT COST AND AN INDIRECT COST?

A. There is no universal rule for classifying costs as direct or indirect. Generally speaking, a direct cost is one that is incurred specifically for one activity. Indirect costs are of a more general nature and are incurred for the benefit of several activities. Consequently, some allocation technique must be used to distribute these indirect costs to the several direct functions benefited. Once a grantee makes an election and treats a given cost as direct or indirect it must apply that treatment consistently and may not change during the fiscal year.

Q. IS IT PERMISSIBLE TO ALLOCATE COSTS (EITHER DIRECTLY OR INDIRECTLY) ON THE BASIS OF REVENUE OR ON THE BASIS OF FUNDS AVAIL-

ABLE UNDER FEDERAL GRANTS OR CONTRACTS?

A. No. The allocation of costs by either of these methods is unacceptable. Cost must be allocated on the basis of services rendered or goods provided to Federal grants or contracts.

Q. SHOULD A COST ALLOCATION PLAN BE SUBMITTED WITH A GRANT OR CONTRACT PROJECT APPLICATION?

A. A plan should not be submitted with a grant or contract project application. Space is provided on most applications for the approved indirect cost rate and the identification of the cognizant Federal agency.

Q. DOES THE CIRCULAR HAVE ANY EFFECT ON "COST SHARING" OR ON "MATCHING" REQUIREMENTS?

A. The Circular does not change any "Cost Sharing" or "Matching" requirements. It does provide a means of identifying total program costs for use in meeting those requirements.

Q. PROGRAM INCOME REPRESENTS EARNINGS BY THE GRANTEE REALIZED FROM THE GRANT-SUPPORTED ACTIVITIES AS A RESULT OF THE GRANT. HOW SHOULD STATE AND LOCAL UNITS OF GOVERNMENT TREAT PROGRAM INCOME?

A. State and local units of government should treat program income in accordance with awarding agency regulations implementing FMC 74-7 (formerly OMB Circular A-102).

SECTION IV

FEDERAL MANAGEMENT CIRCULAR 74-4

GENERAL SERVICES ADMINISTRATION
OFFICE OF FEDERAL MANAGEMENT POLICY

FEDERAL MANAGEMENT CIRCULAR

FMC 74-4: Cost principles applicable to grants
and contracts with State and local
governments

July 18, 1974

TO: HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

1. Purpose. This circular establishes principles and standards for determining costs applicable to grants and contracts with State and local governments.
2. Supersession. The President by Executive Order 11717 transferred the functions covered by this circular from the Office of Management and Budget to the General Services Administration. This circular is therefore issued as a replacement for previous Office of Management and Budget Circular No. A-87. No substantive changes have been made.
3. Policy intent. This circular provides principles for determining the allowable costs of programs administered by State and local governments under grants from and contracts with the Federal Government. They are designed to provide the basis for a uniform approach to the problem of determining costs and to promote efficiency and better relationships between grantees and the Federal Government. The principles are for determining costs only and are not intended to identify the circumstances nor to dictate the extent of Federal and State or local participation in the financing of a particular project. They are designed to provide that federally assisted programs bear their fair share of costs recognized under these principles except where restricted or prohibited by law. No provision for profit or other increment above cost is intended.
4. Applicability and scope.
 - a. The provisions of this circular apply to all Federal agencies responsible for administering programs that involve grants and contracts with State and local governments.
 - b. Its provisions do not apply to grants and contracts with:
 - (1) Publicly financed educational institutions subject to Federal Management Circular 73-8; and
 - (2) Publicly owned hospitals and other providers of medical care subject to requirements promulgated by the sponsoring Federal agencies.

July 18, 1974

Any other exceptions will be approved by the General Services Administration in particular cases where adequate justification is presented.

5. Attachments. The principles and related policy guides are set forth in the attachments, which are:

Attachment A – Principles for determining costs applicable to grants and contracts with State and local governments

Attachment B – Standards for selected items of cost

6. Inquiries. Further information concerning this circular may be obtained by contacting:

Financial Management Branch
Budget Review Division
Office of Management and Budget
Washington, D.C. 20503

Telephone: (202) 395-6823

DWIGHT A. INK
Acting Administrator of General Services

(Note: This Circular was codified in the Code of Federal Regulations as 34 CFR 255.)

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*PRINCIPLES FOR DETERMINING
COSTS APPLICABLE TO GRANTS AND CONTRACTS
WITH STATE AND LOCAL GOVERNMENTS*

A. Purpose and scope.

1. *Objectives.* This attachment sets forth principles for determining the allowable costs of programs administered by State and local governments under grants from and contracts with the Federal Government. The principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of Federal and State or local participation in the financing of a particular grant. They are designed to provide that federally assisted programs bear their fair share of costs recognized under these principles, except where restricted or prohibited by law. No provision for profit or other increment above cost is intended.

2. *Policy guides.* The application of these principles is based on the fundamental premises that:

a. State and local governments are responsible for the efficient and effective administration of grant and contract programs through the application of sound management practices.

b. The grantee or contractor assumes the responsibility for seeing that federally assisted program funds have been expended and accounted for consistent with underlying agreements and program objectives.

c. Each grantee or contractor organization, in recognition of its own unique combination of staff facilities and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration.

3. *Application.* These principles will be applied by all Federal agencies in determining costs incurred by State and local governments under Federal grants and cost reimbursement type contracts (including subgrants and subcontracts) except those with (a) publicly financed educational institutions subject to Federal Management Circular 73-8, and (b) publicly owned hospitals and other providers of medical care subject to requirements promulgated by the sponsoring Federal agencies.

B. Definitions.

1. *Approval or authorization of the grant- or Federal agency* means documentation evidencing consent prior to incurring specific cost.

2. *Cost allocation plan* means the documentation identifying, accumulating, and distributing allowable costs under grants and contracts together with the allocation methods used.

3. *Cost*, as used herein, means cost as determined on a cash, accrual, or other basis acceptable to the Federal grantor agency as a discharge of the grantee's accountability for Federal funds.

4. *Cost objective* means a pool, center, or area established for the accumulation of cost. Such areas include organizational units, functions, objects or items of expense, as well as ultimate cost objectives including specific grants, projects, contracts, and other activities.

5. *Federal agency* means any department, agency, commission, or instrumentality in the executive branch of the Federal Government which makes grants to or contracts with State or local governments.

6. *Grant* means an agreement between the Federal Government and a State or local government whereby the Federal Government provides funds or aid in kind to carry out specified programs, services, or activities. The principles and policies stated in this circular as applicable to grants in general also apply to any federally sponsored cost reimbursement type of agreement performed by a State or local government, including contracts, subcontracts and subgrants.

7. *Grant program* means those activities and operations of the grantee which are necessary to carry out the purposes of the grant, including any portion of the program financed by the grantee.

8. *Grantee* means the department or agency of State or local government which is responsible for administration of the grant.

9. *Local unit* means any political subdivision of government below the State level.

10. *Other State or local agencies* means departments or agencies of the State or local unit which provide goods, facilities, and services to a grantee.

11. *Services*, as used herein, means goods and facilities, as well as services.

12. *Supporting services* means auxiliary functions necessary to sustain the direct effort involved in administering a grant program or an activity providing service to the grant program. These services may be centralized in the grantee department or in some other agency, and include procurement, payroll, personnel functions, maintenance and operation of space, data processing, account-

ing, budgeting, auditing, mail and messenger service, and the like.

C. *Basic guidelines.*

1. *Factors affecting allowability of costs.* To be allowable under a grant program, costs must meet the following general criteria:

a. Be necessary and reasonable for proper and efficient administration of the grant program, be allocable thereto under these principles, and, except as specifically provided herein, not be a general expense required to carry out the overall responsibilities of State or local governments.

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

c. Conform to any limitations or exclusions set forth in these principles, Federal laws, or other governing limitations as to types or amounts of cost items.

d. Be consistent with policies, regulations, and procedures that apply uniformly to both federally assisted and other activities of the unit of government of which the grantee is a part.

e. Be accorded consistent treatment through application of generally accepted accounting principles appropriate to the circumstances.

f. Not be allocable to or included as a cost of any other federally financed program in either the current or a prior period.

g. Be net of all applicable credits.

2. *Allocable costs.*

a. A cost is allocable to a particular cost objective to the extent of benefits received by such objective.

b. Any cost allocable to a particular grant or cost objective under the principles provided for in this circular may not be shifted to other Federal grant programs to overcome fund deficiencies, avoid restrictions imposed by law or grant agreements, or for other reasons.

c. Where an allocation or joint cost will ultimately result in charges to a grant program, an allocation plan will be required as prescribed in section J.

3. *Applicable credits.*

a. Applicable credits refer to those receipts or reduction of expenditure-type transactions which offset or reduce expense items allocable to grants as direct or indirect costs. Examples of such transactions are: purchase discounts; rebates or allowances; recoveries or indemnities on losses; sale of publications, equipments, and scrap; income from personal or incidental services; and adjustments of overpayments or erroneous charges.

b. Applicable credits may also arise when Federal funds are received or are available from sources other than the grant program involved to finance operations or capital items of the grantee. This includes costs arising from the use or depreciation of items donated or financed by the Federal Government to fulfill matching requirements under another grant program. These types of credits should likewise be used to reduce related expenditures in determining the rates or amounts applicable to a given grant.

D. *Composition of cost.*

1. *Total cost.* The total cost of a grant program is comprised of the allowable direct cost incident to its performance, plus its allocable portion of allowable indirect costs, less applicable credits.

2. *Classification of costs.* There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the grant or other ultimate cost objective. It is essential therefore that each item of cost be treated consistently either as a direct or an indirect cost. Specific guides for determining direct and

indirect costs allocable under grant programs are provided in the sections which follow.

E. *Direct costs.*

1. *General.* Direct costs are those that can be identified specifically with a particular cost objective. These costs may be charged directly to grants, contracts, or to other programs against which costs are finally lodged. Direct costs may also be charged to cost objectives used for the accumulation of costs pending distribution in due course to grants and other ultimate cost objectives.

2. *Application.* Typical direct costs chargeable to grant programs are:

a. Compensation of employees for the time and effort devoted specifically to the execution of grant programs.

b. Cost of materials acquired, consumed, or expended specifically for the purpose of the grant.

c. Equipment and other approved capital expenditures.

d. Other items of expense incurred specifically to carry out the grant agreement.

e. Services furnished specifically for the grant program by other agencies, provided such charges are consistent with criteria outlined in Section G. of these principles.

F. *Indirect costs.*

1. *General.* Indirect costs are those (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. The term "indirect costs," as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities, to the grantee department. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of

indirect cost within a grantee department or in other agencies providing services to a grantee department. Indirect cost pools should be distributed to benefiting cost objectives on bases which will produce an equitable result in consideration of relative benefits derived.

2. *Grantee departmental indirect costs.* All grantee departmental indirect costs, including the various levels of supervision, are eligible for allocation to grant programs provided they meet the conditions set forth in this circular. In lieu of determining the actual amount of grantee departmental indirect cost allocable to a grant program, the following methods may be used:

a. *Predetermined fixed rates for indirect costs.* A predetermined fixed rate for computing indirect costs applicable to a grant may be negotiated annually in situations where the cost experience and other pertinent facts available are deemed sufficient to enable the contracting parties to reach an informed judgment (1) as to the probable level of indirect costs in the grantee department during the period to be covered by the negotiated rate, and (2) that the amount allowable under the predetermined rate would not exceed actual indirect cost.

b. *Negotiated lump sum for overhead.* A negotiated fixed amount in lieu of indirect costs may be appropriate under circumstances where the benefits derived from a grantee department's indirect services cannot be readily determined as in the case of small, self-contained or isolated activity. When this method is used, a determination should be made that the amount negotiated will be approximately the same as the actual indirect cost that may be incurred. Such amounts negotiated in lieu of indirect costs will be treated as an offset to total indirect expenses of the grantee department before allocation to remaining activities. The base on which such remaining expenses are allocated should be appropriately adjusted.

3. *Limitation on indirect costs.*

a. Federal grants may be subject to laws that limit the amount of indirect cost that may be allowed. Agencies that sponsor grants of this type will establish procedures which will assure that the amount actually allowed for indirect costs under each such grant does not exceed the maximum allowable under the statutory limitation or the amount otherwise allowable under this circular, whichever is the smaller.

b. When the amount allowable under a statutory limitation is less than the amount otherwise allocable as indirect costs under this circular, the amount not recoverable as indirect costs under a grant may not be shifted to another federally sponsored grant program or contract.

G. *Cost incurred by agencies other than the grantee.*

1. *General.* The cost of service provided by other agencies may only include allowable direct costs of the service plus a prorata share of allowable supporting costs (section B.12.) and supervision directly required in performing the service, but not supervision of a general nature such as that provided by the head of a department and his staff assistants not directly involved in operations. However, supervision by the head of a department or agency whose sole function is providing the service furnished would be an eligible cost. Supporting costs include those furnished by other units of the supplying department or by other agencies.

2. *Alternative methods of determining indirect cost.* In lieu of determining actual indirect cost related to a particular service furnished by another agency, either of the following alternative methods may be used provided only one method is used for a specific service during the fiscal year involved.

a. *Standard indirect rate.* An amount equal to ten percent of direct labor cost in

providing the service performed by another State agency (excluding overtime, shift, or holiday premiums and fringe benefits) may be allowed in lieu of actual allowable indirect cost for that service.

b. *Predetermined fixed rate.* A predetermined fixed rate for indirect cost of the unit or activity providing service may be negotiated as set forth in section F.2.a.

H. *Cost incurred by grantee department for others.*

1. *General.* The principles provided in section G. will also be used in determining the cost of services provided by the grantee department to another agency.

J. *Cost allocation plan.*

1. *General.* A plan for allocation of costs will be required to support the distribution of any joint costs related to the grant program. All costs included in the plan will be supported by formal accounting records which will substantiate the property of eventual charges.

2. *Requirements.* The allocation plan of the grantee department should cover all joint costs of the department as well as costs to be allocated under plans of other agencies or organizational units which are to be included in the costs of federally sponsored programs. The cost allocation plans of all the agencies rendering services to the grantee department, to the extent feasible, should be presented in a single document. The allocation plan should contain, but not necessarily be limited to, the following:

a. The nature and extent of services provided and their relevance to the federally sponsored programs.

b. The items of expense to be included.
c. The methods to be used in distributing cost.

3. *Instructions for preparation of cost allocation plans.* The Department of Health, Education, and Welfare, in consultation with the other Federal agencies concerned, will be responsible for developing and issuing the instructions for use by State and local government grantees in preparation of cost allocation plans. This responsibility applies to both central support services at the State and local government level and indirect cost proposals of individual grantee departments.

4. *Negotiation and approval of indirect cost proposals for States.*

a. The Department of Health, Education, and Welfare, in collaboration with the other Federal agencies concerned, will be responsible for negotiation, approval, and audit of cost allocation plans, which will be submitted to it by the States. These plans will cover central support service costs of the State.

b. At the grantee department level in a State, a single Federal agency will have responsibility similar to that set forth in a., above, for the negotiation, approval, and audit of the indirect cost proposal. Cognizant Federal agencies have been designated for this purpose. Changes which may be required from time to time in agency assignments will be arranged by the Department of Health, Education, and Welfare in collaboration with the other interested agencies, and submitted to the General Services Administration for final approval. A current list of agency assignments will be maintained by the Department of Health, Education, and Welfare.*

c. Questions concerning the cost allocation plans approved under a. and b., above, should be directed to the agency responsible for such approvals.

*The functions noted in Paragraph b have been transferred to Financial Management Branch, Budget Review Division, OMB.

5. Negotiation and approval of indirect cost proposals for local governments.

a. Cost allocation plans will be retained at the local government level for audit by a designated Federal agency except in those cases where that agency requests that cost allocation plans be submitted to it for negotiation and approval.

b. A list of cognizant Federal agencies assigned responsibility for negotiation, approval and audit of central support service cost allocation plans at the local government level is being developed. Changes which may be required from time to time in agency assignments will be arranged by the Department of Health, Education, and Welfare in collaboration with the other interested agen-

cies, and submitted to the General Services Administration for final approval. A current list of agency assignments will be maintained by the Department of Health, Education, and Welfare.*

c. At the grantee department level of local governments, the Federal agency with the predominant interest in the work of the grantee department will be responsible for necessary negotiation, approval and audit of the indirect cost proposal.

6. Resolution of problems. To the extent that problems are encountered among the Federal agencies in connection with 4. and 5. above, the Office of Management and Budget will lend assistance as required.

*The functions noted in Paragraph b have been transferred to Financial Management Branch, Budget Review Division, OMB.

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STANDARDS FOR SELECTED ITEMS OF COST

A. Purpose and applicability

1. *Objective.* This attachment provides standards for determining the allowability of selected items of cost.

2. *Application.* These standards will apply irrespective of whether a particular item of cost is treated as direct or indirect cost. Failure to mention a particular item of cost in the standards is not intended to imply that it is either allowable or unallowable, rather determination of allowability in each case should be based on the treatment of standards provided for similar or related items of cost. The allowability of the selected items of cost is subject to the general policies and principles stated in Attachment A of this circular.

B. Allowable costs.

1. *Accounting.* The cost of establishing and maintaining accounting and other information systems required for the management of grant programs is allowable. This includes cost incurred by central service agencies for these purposes. The cost of maintaining central accounting records required for overall State or local government purposes, such as appropriation and fund accounts by the Treasurer, Comptroller, or similar officials, is considered to be a general expense of government and is not allowable.

2. *Advertising.* Advertising media includes newspapers, magazines, radio and television programs, direct mail, trade papers, and the like. The advertising costs allowable are those which are solely for:

- a. Recruitment of personnel required for the grant program.
- b. Solicitation of bids for the procurement of goods and services required.

c. Disposal of scrap or surplus materials acquired in the performance of the grant agreement.

d. Other purposes specifically provided for in the grant agreement.

3. *Advisory councils.* Costs incurred by State advisory councils or committees established pursuant to Federal requirements to carry out grant programs are allowable. The cost of like organizations is allowable when provided for in the grant agreement.

4. *Audit service.* The cost of audits necessary for the administration and management of functions related to grant programs is allowable.

5. *Bonding.* Costs of premiums on bonds covering employees who handle grantee agency funds are allowable.

6. *Budgeting.* Costs incurred for the development, preparation, presentation, and execution of budgets are allowable. Costs for services of a central budget office are generally not allowable since these are costs of general government. However, where employees of the central budget office actively participate in the grantee agency's budget process, the cost of identifiable services is allowable.

7. *Building lease management.* The administrative cost for lease management which includes review of lease proposals, maintenance of a list of available property for lease, and related activities is allowable.

8. *Central stores.* The cost of maintaining and operating a central stores organization for supplies, equipment, and materials used either directly or indirectly for grant programs is allowable.

9. *Communications.* Communication costs incurred for telephone calls or service, telegraph, teletype service, wide area telephone service (WATS), centrex, telpak (tie lines), postage, messenger service and similar expenses are allowable.

10. *Compensation for personal services.*

a. *General.* Compensation for personal services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under the grant agreement, including but not necessarily limited to wages, salaries, and supplementary compensation and benefits (section B.13.). The costs of such compensation are allowable to the extent that total compensation for individual employees: (1) is reasonable for the services rendered, (2) follows an appointment made in accordance with State or local government laws and rules and which meets Federal merit system or other requirements, where applicable; and (3) is determined and supported as provided in b. below. Compensation for employees engaged in federally assisted activities will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the State or local government. In cases where the kinds of employees required for the federally assisted activities are not found in the other activities of the State or local government, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing government competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness.

b. *Payroll and distribution of time.* Amounts charged to grant programs for personal services, regardless of whether treated as direct or indirect costs, will be based on payrolls documented and approved in accordance with generally accepted practice of the State or local agency. Payrolls must be supported by time and attendance or equivalent

records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort.

11. *Depreciation and use allowances.*

a. Grantees may be compensated for the use of buildings, capital improvements, and equipment through use allowances or depreciation. Use allowances are the means of providing compensation in lieu of depreciation or other equivalent costs. However, a combination of the two methods may not be used in connection with a single class of fixed assets.

b. The computation of depreciation or use allowance will be based on acquisition cost. Where actual cost records have not been maintained, a reasonable estimate of the original acquisition cost may be used in the computation. The computation will exclude the cost or any portion of the cost of buildings and equipment donated or borne directly or indirectly by the Federal Government through charges to Federal grant programs or otherwise, irrespective of where title was originally vested or where it presently resides. In addition, the computation will also exclude the cost of land. Depreciation or a use allowance on idle or excess facilities is not allowable, except when specifically authorized by the grantor Federal agency.

c. Where the depreciation method is followed, adequate property records must be maintained, and any generally accepted method of computing depreciation may be used. However, the method of computing depreciation must be consistently applied for any specific asset or class of assets for all affected federally sponsored programs and must result in equitable charges considering the extent of the use of the assets for the benefit of such programs.

d. In lieu of depreciation, a use allowance for buildings and improvements may be computed at an annual rate not exceeding two percent of acquisition cost. The use

allowance for equipment (excluding items properly capitalized as building cost) will be computed at an annual rate not exceeding six and two-thirds percent of acquisition cost of usable equipment.

e. No depreciation or use charge may be allowed on any assets that would be considered as fully depreciated, provided, however, that reasonable use charges may be negotiated for any such assets if warranted after taking into consideration the cost of the facility or item involved, the estimated useful life remaining at time of negotiation, the effect of any increased maintenance charges or decreased efficiency due to age, and any other factors pertinent to the utilization of the facility or item for the purpose contemplated.

12. *Disbursing service.* The cost of disbursing grant program funds by the Treasurer or other designated officer is allowable. Disbursing services cover the processing of checks or warrants, from preparation to redemption, including the necessary records of accountability and reconciliation of such records with related cash accounts.

13. *Employee fringe benefits.* Costs identified under a. and b. below are allowable to the extent that total compensation for employees is reasonable as defined in section B.10.

a. Employee benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, court leave, military leave, and the like, if they are: (1) provided pursuant to an approved leave system, and (2) the cost thereof is equitably allocated to all related activities, including grant programs.

b. Employee benefits in the form of employers' contribution or expenses for social security, employees' life and health insurance plans, unemployment insurance coverage, workmen's compensation insurance, pension plans, severance pay, and the like, provided such benefits are granted under approved

plans and are distributed equitably to grant programs and to other activities.

14. *Employee morale, health and welfare costs.* The costs of health or first-aid clinics and/or infirmaries, recreational facilities, employees' counseling services, employee information publications, and any related expenses incurred in accordance with general State or local policy, are allowable. Income generated from any of these activities will be offset against expenses.

15. *Exhibits.* Costs of exhibits relating specifically to the grant programs are allowable.

16. *Legal expenses.* The cost of legal expenses required in the administration of grant programs is allowable. Legal services furnished by the chief legal officer of a State or local government or his staff solely for the purpose of discharging his general responsibilities as legal officer are unallowable. Legal expenses for the prosecution of claims against the Federal Government are unallowable.

17. *Maintenance and repair.* Costs incurred for necessary maintenance, repair, or upkeep of property which neither add to the permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition, are allowable.

18. *Materials and supplies.* The cost of materials and supplies necessary to carry out the grant programs is allowable. Purchases made specifically for the grant program should be charged thereto at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received by the grantee. Withdrawals from general stores or stockrooms should be charged at cost under any recognized method of pricing consistently applied. Incoming transportation charges are a proper part of material cost.

19. *Memberships, subscriptions and professional activities.*

a. *Memberships.* The cost of membership in civic, business, technical and professional organizations is allowable provided: (1) the benefit from the membership is related to the grant program, (2) the expenditure is for agency membership, (3) the cost of the membership is reasonably related to the value of the services or benefits received, and (4) the expenditure is not for membership in an organization which devotes a substantial part of its activities to influencing legislation.

b. *Reference material.* The cost of books, and subscriptions to civic, business, professional, and technical periodicals is allowable when related to the grant program.

c. *Meetings and conferences.* Costs are allowable when the primary purpose of the meeting is the dissemination of technical information relating to the grant program and they are consistent with regular practices followed for other activities of the grantee.

20. *Motor pools.* The costs of a service organization which provides automobiles to user grantee agencies at a mileage or fixed rate and/or provides vehicle maintenance, inspection and repair services are allowable.

21. *Payroll preparation.* The cost of preparing payrolls and maintaining necessary related wage records is allowable.

22. *Personnel administration.* Costs for the recruitment, examination, certification, classification, training, establishment of pay standards, and related activities for grant programs, are allowable.

23. *Printing and reproduction.* Cost for printing and reproduction services necessary for grant administration, including but not limited to forms, reports, manuals, and informational literature, are allowable. Publication costs of reports or other media relating to grant program accomplishments or results are allowable when provided for in the grant agreement.

24. *Procurement service.* The cost of procurement service, including solicitation of bids, preparation and award of contracts, and all phases of contract administration in providing goods, facilities and services for grant programs, is allowable.

25. *Taxes.* In general, taxes or payments in lieu of taxes which the grantee agency is legally required to pay are allowable.

26. *Training and education.* The cost of in-service training, customarily provided for employee development which directly or indirectly benefits grant programs is allowable. Out-of-service training involving extended periods of time is allowable only when specifically authorized by the grantor agency.

27. *Transportation.* Costs incurred for freight, cartage, express, postage and other transportation costs relating either to goods purchased, delivered, or moved from one location to another are allowable.

28. *Travel.* Travel costs are allowable for expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business incident to a grant program. Such costs may be charged on an actual basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip, and results in charges consistent with those normally allowed in like circumstances in nonfederally sponsored activities. The difference in cost between first-class air accommodations and less-than-first-class air accommodations is unallowable except when less-than-first-class air accommodations are not reasonably available.

C. *Costs allowable with approval of grantor agency.*

1. *Automatic data processing.* The cost of data processing services to grant programs is allowable. This cost may include rental of

equipment or depreciation on grantee-owned equipment. The acquisition of equipment, whether by outright purchase, rental-purchase agreement or other method of purchase, is allowable only upon specific prior approval of the grantor Federal agency as provided under the selected item for capital expenditures.

2. *Building space and related facilities.* The cost of space in privately or publicly owned buildings used for the benefit of the grant program is allowable subject to the conditions stated below. The total cost of space, whether in a privately or publicly owned building, may not exceed the rental cost of comparable space and facilities in a privately owned building in the same locality. The cost of space procured for grant program usage may not be charged to the program for periods of nonoccupancy, without authorization of the grantor Federal agency.

a. *Rental cost.* The rental cost of space in a privately-owned building is allowable.

b. *Maintenance and operation.* The cost of utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, normal repairs and alterations and the like, are allowable to the extent they are not otherwise included in rental or other charges for space.

c. *Rearrangements and alterations.* Cost incurred for rearrangement and alteration of facilities required specifically for the grant program or those that materially increase the value or useful life of the facilities (section C.3.) are allowable when specifically approved by the grantor agency.

d. *Depreciation and use allowances on publicly owned buildings.* These costs are allowable as provided in section B.11.

e. *Occupancy of space under rental-purchase or lease with option-to-purchase agreement.* The cost of space procured under such arrangements is allowable when specifically approved by the Federal grantor agency.

3. *Capital expenditures.* The cost of facilities, equipment, other capital assets, and repairs which materially increase the value or

useful life of capital assets is allowable when such procurement is specifically approved by the Federal grantor agency. When assets acquired with Federal grant funds are (a) sold, (b) no longer available for use in a federally sponsored program, or (c) used for purposes not authorized by the grantor agency, the Federal grantor agency's equity in the asset will be refunded in the same proportion as Federal participation in its cost. In case any assets are traded on new items, only the net cost of the newly acquired assets is allowable.

4. *Insurance and indemnification.*

a. Costs of insurance required, or approved and maintained pursuant to the grant agreement, is allowable.

b. Costs of other insurance in connection with the general conduct of activities is allowable subject to the following limitations:

(1) Types and extent and cost of coverage will be in accordance with general State or local government policy and sound business practice.

(2) Costs of insurance or of contributions to any reserve covering the risk of loss of, or damage to, Federal Government property is unallowable except to the extent that the grantor agency has specifically required or approved such costs.

c. Contributions to a reserve for a self-insurance program approved by the Federal grantor agency are allowable to the extent that the type of coverage, extent of coverage, and the rates and premiums would have been allowed had insurance been purchased to cover the risks.

d. Actual losses which could have been covered by permissible insurance (through an approved self-insurance program or otherwise) are unallowable unless expressly provided for in the grant agreement. However, costs incurred because of losses not covered under nominal deductible insurance coverage provided in keeping with sound management practice, and minor losses not covered by insurance, such as spoilage, breakage and disappearance of small hand tools which occur in the ordinary course of operations, are allowable.

e. *Indemnification* includes securing the grantee against liabilities to third persons and other losses not compensated by insurance or otherwise. The Government is obligated to indemnify the grantee only to the extent expressly provided for in the grant agreement, except as provided in d. above.

5. *Management studies*. The cost of management studies to improve the effectiveness and efficiency of grant management for ongoing programs is allowable except that the cost of studies performed by agencies other than the grantee department or outside consultants is allowable only when authorized by the Federal grantor agency.

6. *Preagreement costs*. Costs incurred prior to the effective date of the grant or contract, whether or not they would have been allowable thereunder if incurred after such date, are allowable when specifically provided for in the grant agreement.

7. *Professional services*. Cost of professional services rendered by individuals or organizations not a part of the grantee department is allowable subject to such prior authorization as may be required by the Federal grantor agency.

8. *Proposal costs*. Costs of preparing proposals on potential Federal Government grant agreements are allowable when specifically provided for in the grant agreement.

D. *Unallowable costs*.

1. *Bad debts*. Any losses arising from uncollectible accounts and other claims; and related costs, are unallowable.

2. *Contingencies*. Contributions to a contingency reserve or any similar provision for

unforeseen events are unallowable.

3. *Contributions and donations*. Unallowable.

4. *Entertainment*. Costs of amusements, social activities, and incidental costs relating thereto, such as meals, beverages, lodgings, rentals, transportation, and gratuities, are unallowable.

5. *Fines and penalties*. Costs resulting from violations of, or failure to comply with Federal, State and local laws and regulations are unallowable.

6. *Governor's expenses*. The salaries and expenses of the Office of the Governor of a State or the chief executive of a political subdivision are considered a cost of general State or local government and are unallowable.

7. *Interest and other financial costs*. Interest on borrowings (however represented), bond discounts, cost of financing and refinancing operations, and legal and professional fees paid in connection therewith, are unallowable except when authorized by Federal legislation.

8. *Legislative expenses*. Salaries and other expenses of the State legislature or similar local governmental bodies such as county supervisors, city councils, school boards, etc., whether incurred for purposes of legislation or executive direction, are unallowable.

9. *Underrecovery of costs under grant agreements*. Any excess of cost over the Federal contribution under one grant agreement is unallowable under other grant agreements.

SECTION V

APPENDICES

Appendix 1—SAMPLE COST ALLOCATION PLAN FORMATS

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1. *CENTRAL SERVICE COST ALLOCATION PLAN*

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2. *INDIRECT COST RATE PROPOSALS*

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3. *CONSOLIDATED LOCAL CENTRAL SERVICE COST ALLOCATION PLAN AND
INDIRECT COST PROPOSAL*

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*CENTRAL SERVICE COST ALLOCATION PLANS
DESCRIPTION OF EXHIBIT A*

This exhibit is a sample illustration of a central service cost allocation plan. It consists of:

Exhibit A—Summary of Allocated Central Service Costs. This exhibit shows each central service, and the attendant costs, which benefit Federal grants and contracts and for which a State or local government wishes to make a claim. This exhibit must be supported by detailed schedules comparable to A.1-A.3 for each included central service.

Schedule A-1—Allocation of Costs, Personnel Department. The personnel department has been selected as an illustrative central service. This schedule shows those State or organizations to which the personnel department provides services and the allocation of its costs to those organizations. This schedule is supported by Schedules A-2 and A-3.

Schedule A-2—Costs to be Allocated, Personnel Department. This schedule shows the composition of the costs of the personnel department as contained in official financial or budget statements and a reconciliation of those costs with the amount allocated in Schedule A-1.

Schedule A-3—Statement of Function and Benefit, Personnel Department. This schedule is a narrative description of the activities conducted by the personnel department, their necessity (benefits) to the successful performance of federally supported programs, a description of the base(s) selected to distribute the costs of those activities to the organizations to which services are rendered and the rationale for the base(s) selected.

Exhibit A-1—Summary of Central Services Billed. It is common practice for central service departments to bill those organizations to which they render services for the cost of those services. This Exhibit illustrates the services billed to organizations conducting Federal grants and contracts, the costs included in the billing, the methodology for computing the billing rate, etc.

Amounts allocated to the operating departments from the central service cost allocation plan in Exhibits A and A-1, are carried forward to Exhibits B, C, D, and E which illustrate various sample formats for an indirect cost rate proposal.

Only a few of the many possible central services have been shown in Exhibit A and only one central service department is shown in the accompanying Schedules A-1 through A-3. A central service cost allocation plan may include any other services and their attendant costs which are allowable under FMC 74-4 and for which documentation can be provided. Each type of cost claimed should be supported by appropriate schedules and other documentation sufficient to provide a reasonable basis for evaluation and acceptance.

EXHIBIT A

SAMPLE FORMAT

**CENTRAL SERVICE COST ALLOCATION PLAN*
SUMMARY OF ALLOCATED CENTRAL SERVICE COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 19 --**

Department/Operating Unit	<u>Central Service Organizations</u>				Total Allocated Costs (b)
	<u>Personnel (a)</u>	<u>Accounting</u>	<u>Purchasing</u>	<u>Audit</u>	
Health	\$ 9,945	\$ 20,145	\$ 3,412	\$ 1,675	\$ 35,177
Environmental Services	8,907	21,622	2,221	1,221	33,971
Social Services	3,187	7,984	896	645	12,712
Highway	15,132	42,855	6,751	6,227	70,965
Police	29,848	51,960	9,475	11,421	102,704
Fire	24,873	49,743	9,997	14,526	99,139
Other Departments	<u>57,048</u>	<u>187,608</u>	<u>21,431</u>	<u>18,654</u>	<u>284,741</u>
TOTALS	<u>\$148,940</u>	<u>\$381,917</u>	<u>\$54,183</u>	<u>\$54,369</u>	<u>\$639,409</u>

- (a) Allocated amounts shown are from Schedule A-1. In an actual plan, the remaining service departments would similarly need to be supported by separate schedules showing the computation of the allocated amounts.
- (b) These amounts are includable in the indirect cost proposals of the individual operating Departments/units. See Exhibits B, C, D, and E.

*This is a sample only and hence, is brief and simple. In practice, a State or local government may wish to claim more or less activities as charges to Federally supported programs and this Exhibit and its supporting schedules would need to be modified accordingly.

SCHEDULE A-1

SAMPLE FORMAT*

**CENTRAL SERVICE COST ALLOCATION PLAN
ALLOCATION OF COSTS, PERSONNEL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 19 - -**

<u>Department/Unit</u>	<u>Number of Employees (a)</u>	<u>Percent</u>	<u>Allocation (c)</u>
Health	188	6.61	\$ 9,945
Environmental Services	170	5.98	8,907
Social Services	61	2.14	3,187
Highway	289	10.16	15,132
Police	570	20.04	29,848
Fire	475	16.70	24,873
Other Departments (b)	<u>1,091</u>	<u>38.37</u>	<u>57,048</u>
Total	<u>2,844</u>	<u>100.00</u>	<u>\$148,940</u>

- (a) Allocation base must include all employees of all operating departments that are serviced by the personnel department.
- (b) Those departments that do not perform Federal programs may be grouped together.
- (c) Allocated amounts are carried forward to summary schedule in Exhibit A. The total of \$148,940 comes from Schedule A-2.

*This is a sample only and, accordingly, is brief and simple. In practice, the type and level of service provided by the personnel department to the various organizations served may require a separate allocation for each service or to different organizations served.

SCHEDULE A-2

SAMPLE FORMAT*

**CENTRAL SERVICE COST ALLOCATION PLAN
COSTS TO BE ALLOCATED, PERSONNEL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 19 --**

Salaries and Wages		\$140,000
Fringe Benefits		16,000
Supplies		8,000
Travel		7,012
Maintenance & Janitorial Services		7,928
Capital Outlay		<u>7,561</u>
		\$186,501
Less: Unallowable Costs, Capital Outlay	\$ 7,561	
Costs Chargeable to Federal Grant (b)	<u>30,000</u>	<u>37,561</u>
Total Costs to be allocated on Schedule A-1		<u>\$148,940 (a)</u>

- (a) The costs allocated must be reconciled to appropriate financial documents, either financial statements, budgets or a combination of both. In this example the government's base data was cost incurred for its most recent fiscal year.
- (b) Represents charges to a Federal grant awarded to assist the State or local government to improve its personnel system. If a supporting agency received an award from the Federal Government, all costs incurred in connection with the award (including any costs that are required for matching or cost sharing) must be eliminated prior to the distribution of the supporting agency's costs to the user departments or agencies.

*This is a sample only and hence, is brief and simple. In practice, this schedule should be sufficiently detailed to show the costs of major activities, branches, etc. of the personnel departments in a manner permitting a reasonable assessment of the costs claimed against Federal programs.

SCHEDULE A-3

SAMPLE FORMAT*

**CENTRAL SERVICE COST ALLOCATION PLAN
STATEMENT OF FUNCTION & BENEFIT, PERSONNEL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 19 --**

The personnel department is responsible for overall administration of the Civil Service program. This includes recruiting, interviewing, testing and referring potential candidates for the more than 2,000 municipal jobs.

The personnel department administers the classifications and salary programs and is responsible for recommending personnel policies and procedures to the Civil Service Commission for approval.

The department is involved in the design of the various employee benefit programs. After installation, the department reviews and maintains the records on these programs.

Active and inactive personnel records are maintained on all municipal employees.

The personnel department is responsible for maintaining the safety program (including workmen's compensation and injury level) and the city training programs.

All functions and services performed by the personnel department benefit all departments of the city. Federal programs are benefited because city employees are hired to work in these programs. Therefore, the costs of the personnel department have been distributed to all departments of the city.

The basis for allocation is the number of employees per department. The base data is readily available and verifiable. All employees receive essentially the same type and level of services. Hence, this base reflects that condition by distributing the total cost of providing these services to each department in proportion to its relative number of employees.

*This is a sample only and hence, is brief and simple. In practice, this schedule should be sufficiently detailed to provide narrative explanations of the functions and benefits associated with the costs being allocated.

EXHIBIT A-1

SAMPLE FORMAT*

**CENTRAL SERVICE COST ALLOCATION PLAN
SUMMARY OF CENTRAL SERVICES BILLED TO USER ORGANIZATIONS**

Motor Pool	The (State or local government) operates a central motor pool which makes cars, trucks and buses available to user departments. User departments are billed for each mile driven: cars-15 cents per mile; trucks-25 cents per mile; and buses-30 cents per mile. The basis for the charge is the most recent study of cost per mile driven, performed by the internal audit staff. Any over or under recovery is applied to the next year's expected expenditures and is included in that year's billing rate. The costs included are salaries and wages and fringe benefits of motor pool personnel, their travel, supplies and parts and use charges for equipment and buildings and vehicles determined in accordance with FMC 74 4.
Data Processing	The State (or local government) operates a central computer center consisting of an IBM system 370/115, and Control Data 3100 and Cyber 70 series configuration. The center provides both regular continuing and special job computer support to most operating and staff departments. Billings for services are made to user organizations based on a standard price schedule. The price schedule is related to, and, designed to recover the costs of various types of jobs on each system. It is revised quarterly and audited annually by the internal audit department. Profits or losses are carried forward and used to adjust price schedules of ensuing quarterly billing rates. Costs consists of salaries and wages and fringe benefits of center personnel, supplies, maintenance and utilities, and straight line depreciation of equipment based on a fifteen year life.
Long Distance Telephone	All long distance telephone calls are placed through a central switchboard and are billed to the organizations making the call.

NOTES

If a direct billing mechanism is used by the government, then all users must be billed. Billing of selected departments and allocation of residual amounts through the cost allocation plan to remaining departments results in inequitable costing and is not acceptable. However, if all users are billed, residual amounts may be allocated through the allocation plan provided they are not material and the allocation base is equitable.

A detailed breakdown of costs is not normally required as a part of this exhibit. However, the submitting State or local government must have and make available to the Federal cognizant agency such cost and revenue breakdowns, utilization records and other information as is necessary to permit a reasonable assessment of the costs incurred and charges made.

*This is a sample only, and hence, is brief and simple. In practice, the number and types of services billed may be greater than shown here and may require more extensive description and explanation.

DESCRIPTION OF EXHIBIT B

Exhibit B illustrates the computation of indirect costs for programs operated within a department using the short form method. The costs of the department are categorized as indirect costs, direct costs (salaries and wages and other) and expenditures not allowable. The short-form method is the least complex of the various methods of computing departmental indirect cost rates. This method is used in those instances where indirect costs at the division or bureau level are not identified. Thus, all costs incurred at the division or bureau level are treated as direct costs. If division or bureau level indirect costs can be identified, the simplified method (Exhibit C), the alternate simplified method (Exhibit D) or the multiple rate method (Exhibit E) may be used.

EXHIBIT B

SAMPLE FORMAT

DEPARTMENT OF ENVIRONMENTAL SERVICES INDIRECT COST RATE PROPOSAL—SHORT FORM METHOD* FOR THE FISCAL YEAR ENDED JUNE 30, 19 --

	Total Costs Incurred (a)	Excludable Costs (b)	Unallowable Costs (c)	<u>Direct Costs</u>		Indirect Costs
				Salaries & Wages (d)	Other	
<u>Divisions/Bureaus</u>						
Air Quality and Noise	\$2,158,100	\$1,800,000	\$ 21,900	\$ 260,100	\$ 76,100	
Community Environmental Control	245,200		12,200	187,800	45,200	
Water Quality Management	255,400		9,600	196,700	49,100	
Solid Waste Disposal	642,300		51,000	476,100	115,200	
Parks and Forests	283,700		11,500	216,300	55,900	
<u>Departmental Indirect Costs</u>						
Office of the Director	35,600		1,000			\$ 34,600
Financial Management	56,000					56,000
Administrative Services	61,100		500			60,600
Equipment Use	1,000					1,000
<u>Central Service Cost Allocation</u>						
<u>Plan(e)</u>						
Personnel	8,907					8,907
Accounting	21,622					21,622
Purchasing	2,221					2,221
Audit	1,221					1,221
Total Costs	<u>\$3,772,371</u>	<u>\$1,800,000</u>	<u>\$107,700</u>	<u>\$1,337,000</u>	<u>\$341,500</u>	<u>\$186,171</u>
<u>Rate Calculation</u>						
	Indirect Costs		\$ 186,171			
	Direct Salaries and Wages		\$1,337,000	= 13.92%		

*This is a sample only and is not intended to prescribe methods of charging costs.

Notes to Exhibit B

- (a) Total departmental costs. This amount should be reconciled to the financial statements or other supporting documentation submitted with the proposal and would include costs billed from the Central Plan as well as departmental billed costs (Billed costs should be in compliance with Exhibit A-1).
- (b) Under some Federal programs funds are provided to a grantee and subsequently passed through to another organization which actually performs the program for which the funds are provided. There is no measurable involvement by the grantee in the use or administration of the funds. This example illustrates such a situation. Since these funds, which are recorded as a cost in the records of the department do not reflect the expenditure of resources, they are excluded from the computation. However, if the grantee does in fact incur a significant amount of costs in administering the grant, then it should be assessed for its equitable share of indirect costs. This column would be normally used by States only and not by local governments.
- (c) Expenditures not allowable. This amount represents costs of capital expenditures and other costs which are unallowable under FMC 74-4. Unallowable costs must be allocated their share of indirect costs if they either generated or benefited from the indirect costs. In this example this is not the case.
- (d) Salaries and wages. This amount is set out simply because it is the base upon which the indirect cost rate is calculated.
- (e) Central Service Cost Allocation Plan Costs. The amounts shown as allocated must agree with the amounts shown on the Central Service Cost Allocation Plan (see Exhibit A.)

DESCRIPTION OF EXHIBIT C

Exhibit C illustrates the distribution of indirect costs of a State or local government department, the division/bureaus of the department and the cost of central services provided to it. Exhibit C differs from Exhibit B in that recognition is given to the indirect costs within each division. Under the Short Form Method illustrated in Exhibit B, where indirect costs are not identified at the division or bureau level, all costs are treated as direct costs. Under the Simplified Method shown in this Exhibit, indirect costs are identified at the division or bureau level, and are so indicated. This method may be used if the ratio of the indirect costs to direct salaries and wages (or other selected base) of each division or bureau reasonably approximates the ratio of the other divisions or is otherwise not inequitable to the Federal government. If, the indirect/direct ratio varies significantly between divisions or bureaus, the Alternate Simplified Method (Exhibit D) or the Multiple Rate Method (Exhibit E) should be used.

EXHIBIT C

SAMPLE FORMAT

DEPARTMENT OF ENVIRONMENTAL SERVICES INDIRECT COST RATE PROPOSAL—SIMPLIFIED METHOD* FOR THE FISCAL YEAR ENDED JUNE 30, 19 - -

	Total (e)	Exclusions (a)	Expenditures Not Allowable (b)	Indirect Costs (d)	Direct Costs (c)	
					Direct Salaries & Wages	Expenditures For All Other Purposes
<i>Division/Bureau</i>						
Air Quality and Noise	\$2,149,100	\$1,800,000	\$ 21,900	\$ 28,100	\$ 235,400	\$ 63,700
Community Environmental Control	245,200		12,200	20,100	170,000	42,900
Water Quality Management	255,400		9,600	21,000	178,100	46,700
Solid Waste Disposal	642,300		51,000	50,900	431,000	109,400
Parks and Forests	283,700		11,500	23,200	195,900	53,100
	<u>\$3,575,700</u>	<u>\$1,800,000</u>	<u>\$106,200</u>	<u>\$143,300</u>	<u>\$1,210,400</u>	<u>\$315,800</u>
<i>Departmental Indirect Costs</i>						
Office of the Director	35,600			35,600		
Financial Management	56,000			56,000		
Administrative Services	62,100			62,100		
Equipment Use	9,000			9,000		
	<u>\$3,738,400</u>	<u>\$1,800,000</u>	<u>\$106,200</u>	<u>\$306,000</u>	<u>\$1,210,400</u>	<u>\$315,800</u>
<i>Services Furnished (But Not Billed) By Other Government Agencies (f)</i>						
Personnel	8,907			8,907		
Accounting	21,622			21,622		
Purchasing	2,221			2,221		
Audit	1,221			1,221		
	<u>\$3,772,371</u>	<u>\$1,800,000</u>	<u>\$106,200</u>	<u>\$339,971</u>	<u>\$1,210,400</u>	<u>\$315,800</u>

Notes to Exhibit C

- (a) Under some Federal programs funds are provided to a grantee and subsequently passed through to another organization actually performs the program for which the funds are provided. There is no measurable involvement by which the grantee in the use of administration of the funds. This example illustrates such a situation. Since these funds, which are recorded as a cost in the records of the department do not reflect the expenditure of resources, they are excluded from the computation. However, if the grantee does in fact incur a significant amount of costs in administering the grant, then it should be assessed for its equitable share of indirect costs. This column is normally used by States only and not local governments.
- (b) Expenditures not allowable. This amount represents costs or capital expenditures and costs, whether direct or indirect, which are unallowable in accordance with the cost principles. Although a cost may be unallowable if it either generated or benefited from the indirect costs, it should be moved to the base (providing it is salaries and wages in this example) and allocated its share of indirect costs.
- (c) Under the Simplified Method, a determination is made as to which activities are direct, illustrated under the heading Direct Costs, and which are indirect, illustrated under the heading Indirect Costs.
- (d) Once the determination of direct/indirect has been made, a ratio should be determined for each division/bureau as shown in the following calculation:

<u>Division/Bureau</u>	<u>Indirect Costs</u>	<u>Direct Salaries and Wages</u>	<u>Ratio</u>
Air Quality & Noise	\$28,100	\$235,400	11.94%
Community Environmental Control	20,100	170,000	11.82%
Water Quality Management	21,000	178,100	11.79%
Solid Waste Disposal	50,900	431,000	11.81%
Parks & Forests	23,200	195,900	11.84%

In this illustration, the dollar amounts of indirect costs differ significantly between division or bureaus; however, when individually expressed as a percentage of direct salaries and wages the differences are minor. Therefore, a single overall rate for the department may be computed by adding the departmental indirect costs and the costs incurred by other government agencies and allocating the indirect cost pool over a single base.

- (e) Total departmental costs. This amount should be reconciled to the financial statements or other supporting documentation included in the proposal.
- (f) Costs incurred by other government agencies. This amount must agree with the amounts shown on the central service Cost Allocation Plan (see Exhibit A.) In this illustration, costs of \$33,971 represents costs of central services allocated to the entire department. Government-wide services that are billed directly to departments or to programs must also be documented in the cost allocation plan (See Exhibit A-1).

*This is a sample only and is not intended to prescribe methods of charging costs.

DESCRIPTION OF EXHIBIT C-1

The totals from Exhibit C are brought forward to this Exhibit. The indirect cost rate is expressed as a percentage resulting from the ratio of the allowable indirect costs (\$339,971) to the direct salaries and wages (\$1,210,400.)

EXHIBIT C-1

SAMPLE FORMAT

DEPARTMENT OF ENVIRONMENTAL SERVICES INDIRECT COST RATE PROPOSAL—SIMPLIFIED METHOD* FOR THE FISCAL YEAR ENDED JUNE 30, 19--

<u>Total</u>	<u>Exclusions & Expenditures Not Allowable</u>	<u>Indirect Costs</u>	<u>Direct Salaries & Wages</u>	<u>Other Direct Expenditures</u>
<u>\$3,772,371</u>	<u>\$1,906,200</u>	<u>\$339,971</u>	<u>\$1,210,400</u>	<u>\$315,800</u>
		(A)	(B)	
(A) divided by (B) =	\$ 339,971 ----- \$1,210,400	= Indirect cost rate of 28.09% of direct salaries and wages excluding fringe benefits.		

Treatment of Fringe Benefits

In this example, fringe benefits applicable to direct salaries and wages are treated as direct costs.

*This is a sample only and is not intended to prescribe methods of charging costs.

DESCRIPTION OF EXHIBIT D

This method illustrates the distribution of indirect costs to functional divisions or bureaus in order to determine separate indirect cost rates for each division or bureau. This method provides more definitive costing in those instances where, indirect effort at the division or bureau level is material in amount and differs sufficiently from division to division to warrant a more precise method of costing than shown in the simplified method in Exhibit C.

This computation recognizes indirect costs of (1) each division or bureau, (2) the department, and (3) services furnished (but not billed) by other local government agencies. Indirect costs at the department level and central service level are allocated to the divisions or bureaus on a single base. A rate is then developed for each of the divisions or bureaus by relating the indirect costs of each division or bureau to the selected basis for allocation for each division or bureau.

EXHIBIT D

SAMPLE FORMAT

INDIRECT COST RATE PROPOSAL-ALTERNATE SIMPLIFIED METHOD*
DEPARTMENT OF ENVIRONMENTAL SERVICES
FOR THE FISCAL YEAR ENDED JUNE 30, 19--

	Totals (g)	Exclusions (f)	Departmental Indirect Costs	Allocation To Divisions/ Bureaus	Division/Bureaus				
					Air Quality and Noise	Community Environmental Control	Water Quality	Solid Waste Disposal	Parks and Forests
Expenditures Not Allowable (a)	\$ 106,200				\$ 21,900	\$ 12,200	\$ 9,600	\$ 51,000	\$ 11,500
Direct Salaries and Wages (b)	1,164,700		\$ 35,600		251,500	178,000	184,700	375,000	175,500
Other Direct Expenditures (b)	2,097,700	\$1,800,000	56,000		63,700	42,900	46,700	98,400	46,000
Division/Bureau Indirect Costs (b)	207,100		62,100		12,000	12,100	14,400	117,900	50,700
Departmental Indirect Costs			9,000						
Office of the Director			\$ 35,600						
Financial Management			56,000						
Administrative Services			62,100						
Equipment Use			9,000						
Total Departmental Indirect Costs (c)	162,700		162,700	(\$162,700)	35,133	24,865	25,801	52,385	24,516
Total Departmental Costs	\$3,738,400	\$1,800,000			\$ 384,233	\$ 270,065	\$ 281,201	\$ 694,685	\$ 308,216
Services Furnished (But Not Billed) By Other Government Agencies (d)	\$ 8,907								
Personnel	21,622								
Accounting	2,221								
Purchasing	1,221								
Audit									
Total Services Furnished (But Not Billed) By Other Government Agencies (d)	\$ 33,971				\$ 7,336	\$ 5,192	\$ 5,387	\$ 10,937	\$ 5,119
Total Costs	\$3,772,371	\$1,800,000			\$ 391,569	\$ 275,257	\$ 286,588	\$ 705,622	\$ 313,335
Total Indirect Costs (e)	\$ 403,771				\$ 54,469	\$ 42,157	\$ 45,588	\$ 181,222	\$ 80,335
Indirect Cost Rates (See Note (e))		Indirect Costs (c)		Salary and Wages (b)		Ratio			
Air Quality and Noise		\$ 54,469		\$ 251,500		21.66%			
Community Environmental Control		42,157		178,000		23.68%			
Water Quality		45,588		184,700		24.68%			
Solid Waste Disposal		181,222		375,000		48.33%			
Parks and Forest		80,335		175,500		45.77%			
Total		\$403,771		\$1,164,700					

*This is a sample only and is not intended to prescribe methods of charging costs.

Notes to Exhibit D

- (a) Expenditures not allowable. This amount represents costs of capital expenditures and both direct and indirect costs which are unallowable in accordance with the cost principles. Although a direct cost may be unallowable, it should be allocated its share of indirect costs if it either generated or benefited from the indirect costs.
- (b) A determination is made as to which functions are direct and which are indirect at the division or bureau level. Next, direct salaries and wages are separately identified from other direct expenditures. An analysis is made to determine the ratio of indirect costs to direct salaries and wages to determine the amount of variance between divisions and bureaus:

<u>Division/Bureau</u>	<u>Divisional Indirect Costs</u>	<u>Direct Salaries and Wages</u>	<u>Ratio</u>
Air Quality and Noise	\$ 12,000	\$ 251,500	4.77%
Community Environmental Control	12,100	178,000	6.80%
Water Quality	14,400	184,700	7.80%
Solid Waste Disposal	117,900	375,000	31.44%
Parks and Forests	<u>50,700</u>	<u>175,500</u>	<u>28.89%</u>
Totals	<u>\$207,100</u>	<u>\$1,164,700</u>	<u>17.78%</u>

The difference in the rates of indirect costs incurred per division or bureau when related to the direct salaries and wages are significant enough to preclude the use of a single department-wide rate. Separate pools should be established for each division or bureau and a portion of the central service costs and departmental indirect costs allocated to each pool.

- (c) In this example, departmental indirect costs are allocated to the division or bureaus on the basis of direct salaries and wages incurred in each division or bureau.

	<u>Direct Salaries and Wages</u>	<u>Percent of Total</u>	<u>Departmental Indirect Costs</u>	<u>Allocated Amount</u>
Air Quality and Noise	\$ 251,500	21.6%	\$162,700	\$ 35,133
Community Environmental Control	178,000	15.3%	162,700	24,865
Water Quality	184,700	15.8%	162,700	25,801
Solid Waste Disposal	375,000	32.2%	162,700	52,385
Parks and Forests	<u>175,500</u>	<u>15.1%</u>	<u>162,700</u>	<u>24,516</u>
Totals	<u>\$1,164,700</u>	<u>100.0%</u>		<u>\$162,700</u>

- (d) Costs incurred by other governmental agencies are allocated to the divisions or bureaus on the basis of direct salaries and wages.

	<u>Direct Salaries and Wages</u>	<u>Percent of Total</u>	<u>Departmental Indirect Costs</u>	<u>Allocated Amount</u>
Air Quality and Noise	\$ 251,500	21.6%	\$ 33,971	\$ 7,336
Community Environmental Control	178,000	15.3%	33,971	5,192
Water Quality	184,700	15.8%	33,971	5,387
Solid Waste Disposal	375,000	32.2%	33,971	10,937
Parks and Forests	<u>175,500</u>	<u>15.1%</u>	<u>33,971</u>	<u>5,119</u>
Totals	<u>\$1,164,700</u>	<u>100.0%</u>		<u>\$ 33,971</u>

Notes to Exhibit D (Continued)

- (e) Total indirect costs include (1) division/bureau indirect costs (2) departmental indirect costs, and (3) services furnished (but not billed) by other government agencies. The total indirect expenses for each division or bureau are carried forward to Exhibit D, where the relationship between the indirect expenses and the direct salaries and wages of each division or bureau is used to develop indirect cost rates.
- (f) Under some Federal programs, funds are provided to a grantee and subsequently passed through to another organization which actually performs the program for which the funds are provided. There is no measurable involvement by the grantee in the use or administration of the funds. This example illustrates such a situation. Since these funds, which are recorded as a cost in the records of the department do not reflect the expenditure of resources, they are excluded from the computation. However, if the grantee does in fact incur a significant amount of costs in administering the grant, then it should be assessed for its equitable share of indirect costs. This column would be normally used by States only and not by local governments.
- (g) This amount should be reconciled to the financial statements or other supporting documentation submitted with the proposal.

DESCRIPTION OF EXHIBIT E

Exhibit E illustrates the distribution of indirect costs on a multiple allocation basis to each division or bureau within a Department. This method results in more definitive costing and is for use when operating differences between divisions or bureaus result in material differences in the use of resources and in costs.

The computation recognizes (1) the indirect costs of each division or bureau, (2) department level administration, and (3) the cost of services furnished by other government agencies and approved through the central service cost allocation plan. These costs are allocated to the divisions or bureaus on bases which most fairly give effect to the extent to which they benefit from or generate the costs. For example, the costs of purchasing services is allocated on the number of purchase orders issued while the costs of personnel administration is allocated on the number of employees serviced.

Indirect costs allocated from the department level and from the central service plan are added to the indirect costs incurred by each division or bureau to arrive at total indirect costs for each of the divisions or bureaus. As in the method described in Exhibit D, a rate is developed for each division or bureau by relating its indirect costs to its salaries and wages or other selected base.

EXHIBIT E

SAMPLE FORMAT

**DEPARTMENT OF ENVIRONMENTAL SERVICES
INDIRECT COST RATE PROPOSAL-MULTIPLE RATE METHOD*
FOR THE FISCAL YEAR ENDED JUNE 30, 19--**

	Allocation Base (a)	Total Indirect Costs (b)	Services Furnished by Other Gov't Agencies (c)					Departmental Costs (d)			Total (e)
			Personnel	Accounting	Purchasing	Audit	Equipment	Financial Mgmt.	Admin. Services	Director	
<i>Services Furnished (But Not Billed) By Other Government Agencies (e)</i>											
Personnel		\$ 8,907	(\$8,907)								
Accounting	Number of Employees	21,622		(\$21,622)							
Purchasing	Number of Employees (f)	2,221			(\$2,221)						
Audit	Number of Purchase Orders	1,221				(\$1,221)					
	Number of Audit Hours										
Subtotal		\$ 33,971									
<i>Departmental Indirect Costs</i>											
Equipment Use	User of Equipment	\$ 9,000						(9,000)			
Financial Mgmt.	Transaction Processed	56,000							(56,000)		
Admin. Services	Direct Salaries & Wages	62,100									
Director's Office	Direct Salaries & Wages	35,600									
Subtotal		\$162,700									
<i>Division/Bureau</i>											
Air Quality & Noise		\$ 28,100	\$ 1,692	\$ 4,108	\$ 333	\$ 98	\$ 200	\$ 8,960	\$ 11,799	\$ 6,764	\$ 62,054
Environ. Control		20,100	1,246	3,027	333	98	400	11,200	8,694	4,984	50,082
Water Quality		21,000	1,157	2,811	222	98	400	8,960	8,694	4,984	48,326
Solid Waste Disposal		50,900	3,562	8,649	1,111	610	7,200	15,120	21,735	12,460	121,347
Parks & Forest		23,200	1,157	2,811	155	195	800	8,400	9,936	5,696	52,350
Plant Construction		15,200	93	216	67	122	-0-	3,360	1,242	712	21,012
Subtotal		\$158,500									
Totals		\$355,171	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	\$355,171

*This is a sample only and is not intended to prescribe methods of charging costs.

Notes to Exhibit E

- (a) The allocation bases used were selected as reasonable and applicable under the circumstances. Other basis could be just as acceptable if they represented a fair measure of cost generation or cost benefit.
- (b) The costs in this column must be reconciled to official financial statements. In this illustration, it is assumed that all costs incurred are allowable and relevant in accordance with FMC 74-4. To the extent that unallowable or excludable (See Exhibit B Note (b)) costs are included therein, a separate column should be added to the schedule to show the amounts and adjustments made.
- (c) The costs of services furnished (but not billed) by other government agencies which are derived through the central service cost allocation plan, are allocated to each functional division or bureau. This allocation could be made more precise by allocating the costs to each departmental administrative function e.g., to financial management, administrative services, etc., and to the divisions or bureaus. The indirect costs of each departmental administrative service plus its allocated amount of central service costs would then be allocated to the divisions or bureaus. If the result of such allocations would have a material effect on the rates computed, the more precise method should be used. In the example presented, the dollar effect is not sufficiently material to warrant this level of precision.
- (d) Departmental indirect costs are allocated to each division or bureau. As with services furnished by other Federal agencies, explained in Note (c), the allocation of certain departmental indirect costs, such as equipment use charges could have been allocated to other departmental administrative functions, if the results of such allocation would have had a material effect on the rates to be computed. In the example presented, the dollar effect is not sufficiently material to warrant the additional allocations.
- (e) The costs of services furnished (but not billed) by other government agencies is derived from the central service cost allocation plan shown in Exhibit A. In addition to the listed unbilled services, the department also received services from other organizations for which it is billed at rates approved through the central service cost allocation plan (See Exhibit A-1). This illustration assumes that these billed costs are already recorded in the accounting records of the department and included in the column—total indirect costs, or treated as a direct cost.
- (f) Accounting services rendered by other agencies are allocated to the divisions or bureaus on the basis of number of employees. In this illustration, the accounting services provided by the central service agency were predominantly payroll services.
- (g) The total indirect expenses developed for each division or bureau is carried forward to Exhibit E-1, where the relationship between the indirect expenses and direct salaries and wages of each division or bureau is used to develop indirect cost rates.

EXHIBIT E-1

SAMPLE FORMAT

**DEPARTMENT OF ENVIRONMENTAL SERVICES
INDIRECT COST RATE PROPOSAL-MULTIPLE RATE METHOD
FOR THE FISCAL YEAR ENDED JUNE 30, 19--**

<u>Divisions/Bureaus</u>	<u>Indirect Costs</u>	<u>Direct Salaries and Wages</u>	<u>Indirect Cost Rates</u>
	(a)	(b)	(a) ÷ (b)
Air Quality and Noise	\$ 62,054	\$ 225,815	27.48%
Community Environmental Control	50,082	166,390	30.10%
Water Quality Management	48,326	166,390	29.04%
Solid Waste Disposal	121,347	415,975	29.17%
Parks and Forests	52,350	190,160	27.53%
Plant Construction	21,012	23,770	88.40%
	<u>\$355,171</u>	<u>\$1,188,500</u>	

- (a) The amounts in this column are from Exhibit E.
- (b) The amounts in this column are derived from and must be reconciled to the books and records of the department. Salaries and wages is the preferred base. However other bases may be used where it results in a more equitable allocation of costs. Generally, the same base should be used for all divisions, however, if approved by the cognizant Federal agency, different bases may be used for one or more of the divisions.
- (c) The indirect cost rate for each division/bureau is computed by dividing the indirect costs for each division/bureau by the direct salaries and wages of that division/bureau.

DESCRIPTION OF EXHIBIT F

This Exhibit illustrates the consolidated cost allocation plan. The plan may be used only by local governments. This method is used in lieu of the central service cost allocation plan and department/agency indirect cost proposals. The advantage of this method to local governments is that it is simple and does not require the use of complex cost schedules to support cost allocations. However, the use of this method entails the acceptance of certain conditions which may result in less total recovery of indirect type costs to a local government. If the following conditions are recognized and accepted, a local government may opt to use the method:

- a. Only indirect costs of certain central services will be accepted for allocation. The only central services includable under this method are those that demonstrably benefit Federally supported programs and which would have been allocated to Federal awards had the regular methods illustrated in Exhibits A and B through E been used.
- b. Central service costs which do not qualify under a. above must be added to the base used to develop the indirect cost rate.
- c. All costs of all local departments and agencies (excluding the costs in a. above) must be included in the base used to develop the indirect cost rate except for unallowable items such as interest expense and items that tend to distort the rate computation, such as major subcontracts and items of capital equipment. Indirect type costs incurred at the local department or agency level, including divisional indirect costs, cannot be proposed as indirect costs but must be treated as a base cost in developing the indirect cost rate.
- d. Indirect type costs incurred at any level of government may not be charged to a federally supported program as a direct cost; e.g., accounting, purchasing, personnel. However direct charges such as motor pool, reproduction, communications, etc. will be allowed if (1) they are so identified on the consolidated central service plan and if (2) the grantee's system normally provides for directly assessing its departments and agencies for the use of these services using pricing or fee schedules designed to recover the actual costs of services used.

EXHIBIT F

SAMPLE FORMAT

**CONSOLIDATED LOCAL CENTRAL SERVICE COST ALLOCATION PLAN
AND INDIRECT COST PROPOSAL
FOR THE YEAR ENDED JUNE 30, 19 - -**

	<u>Total</u>	<u>Expenditures Not Allowable (a)</u>	<u>Indirect Costs</u>	<u>Direct Costs</u> Salaries & Wages	<u>All Other</u>
<i>Indirect Cost Pool:</i>					
<i>Central Services Benefiting Federal Programs</i>					
City Manager	\$ 25,000		\$ 25,000		
City Treasurer's Office (b)	41,000	\$ 1,000	40,000		
Comptroller's Office (b)	48,500	3,500	45,000		
Personnel Department	30,000		30,000		
Building Use Allowance	5,000		5,000		
<i>Indirect Cost Base(d):</i>					
<i>Central Services Not Benefiting Federal Programs</i>					
Mayor's Office (c)	40,000			\$ 25,000	\$ 15,000
City Office (c)	60,000			40,000	20,000
City Treasurer's Office (b)	34,000	4,000	20,000	10,000	10,000
Comptroller's Office (b)	126,500	6,500	90,000	30,000	
<i>Costs of All Operating Departments and Agencies</i>					
Dept. of Streets	730,000	500,000		150,000	80,000
Dept. of Health	160,000	10,000		120,000	30,000
Dept. of Justice	135,000	5,000		100,000	30,000
Dept. of Environmental Svcs.	520,000	400,000		90,000	30,000
Police Dept.	290,000	40,000		150,000	100,000
Fire Dept.	180,000	50,000		90,000	40,000
Totals	<u>\$2,425,000</u>	<u>\$1,020,000</u>	<u>\$145,000</u>	<u>\$875,000</u>	<u>\$385,000</u>

Indirect Cost Rate Computation

<u>Indirect Costs</u>	<u>\$145,000</u>	= 16.6%
Direct salaries & wages	\$875,000	

Notes to Exhibit F

- (a) Expenditures not allowable consist of capital expenditures, contracted construction and flow through monies, etc. These items are excluded from the computation because their inclusion would distort the assessment of indirect costs.
- (b) In this illustration, the Treasurer's and Comptroller's office each conduct both direct and indirect activities. For example, the taxing function is contained in both offices (assessing, billing, collecting, etc.). The taxing function is considered a cost of general government and a direct activity. The offices also perform such activities as accounting, payroll, voucher payments, etc., these activities are considered indirect activities.
- (c) Costs of the Mayor's Office and the City Council are stipulated in FMC 74-4 as costs of general Government and hence, are unallowable as indirect costs; however, these functions benefit from those costs classified as allowable indirect costs and must be included in the base used to calculate the indirect cost rate.
- (d) The indirect cost base consists of the costs of all the functions and activities of local governments except (i) central services benefiting Federal programs and (ii) expenditures not allowable. Thus in this method, costs such as the salaries of department and division heads, secretaries, administrative supplies, etc. which could be treated as indirect cost under other methods, must be treated as direct costs and may not be charged to Federal programs as either indirect or direct costs.

Appendix 2—SAMPLE FORM-CERTIFICATION BY AN AGENCY GOVERNMENT OFFICIAL

I hereby certify that the information contained in the

Check One:

- Indirect Cost Proposal
- Central Service Cost Allocation Plan
- Consolidated Central Service Cost Allocation Plan/Indirect Cost Proposal

for the fiscal year ended _____ and which is attached to this certification is
(Month-date-year)

prepared in conformance with Federal Management Circular 74-4 and the implementing instructions contained in the Guide OASC-10 published by the department of Health, Education, and Welfare. I further certify: (1) that no costs other than those incurred by the grantee/contractor or allocated to the grantee/contractor via an approved central service cost allocation plan were included in its indirect cost pool as finally accepted, and that such incurred costs are legal obligations of the grantee/contractor and allowable under the governing cost principles, (2) that the same costs that have been treated as indirect costs have not been claimed as direct costs, (3) that similar types of costs have been accorded consistent accounting treatment, and (4) that the information provided by the grantee/contractor which was used as a basis for acceptance of the rate(s) agreed to herein is not subsequently found to be materially inaccurate.

Signature

Name

Title

Name of State or Local Government

Name of Dept. or Agency (for indirect cost proposal only)

Date

Appendix 3—*SUGGESTED BASES FOR COST DISTRIBUTION*

Following are suggested bases for distributing joint costs of central-type services to local government departments or agencies and to projects and programs utilizing these services. The suggested bases are not mandatory for use if they are not suitable for the particular services involved. Any method of distribution can be used which will produce an equitable distribution of cost. In selecting one method over another, consideration should be given to the additional effort required to achieve a greater degree of accuracy.

<i>Type of Service</i>	<i>Suggested Bases for Allocation</i>
Accounting	Number of transactions processed.
Auditing	Direct audit hours.
Budgeting	Direct hours of identifiable services of employees of central budget.
Buildings lease management	Number of leases.
Data processing	System usage.
Disbursing service	Number of checks or warrants issued.
Employees retirement system administration	Number of employees contributing.
Insurance management service	Dollar value of insurance premiums.
Legal services	Direct hours.
Mail and messenger service	Number of documents handled or employees served.
Motor pool costs including automotive management	Miles driven and/or days used.
Office machines and equipment maintenance repairs	Direct hours.
Office space use and related costs (heat, light, janitor services, etc.)	Sq. ft. of space occupied.
Organization and management services	Direct hours.
Payroll services	Number of employees.
Personnel administration	Number of employees

Type of Service

Suggested Bases for Allocation

Printing and reproduction	Direct hours, job basis, pages printed, etc.
Procurement service	Number of transactions processed.
Local telephone	Number of telephone instruments.
Health services	Number of employees
Fidelity bonding program	Employees subject to bond or penalty amounts.

Appendix 4.a.—*SAMPLE FORMAT*

**STATE AND LOCAL DEPARTMENT UNIT
INDIRECT COST NEGOTIATION AGREEMENT**

DATE: June 24, 1976

Department/Unit and
State/Locality: (Insert Name and Address)

FILING REF.: This replaces
Negotiation Agreement
dated June 3, 1975

The indirect cost rate(s) contained herein is for use on grants and contracts with the Federal Government to which Federal Management Circular 74-4 applies subject to the limitations contained in Section II, A. of this agreement. The rate(s) was negotiated by the (insert the above named State or local department/agency) and the Department of (insert name of the Federal cognizant agency) in accordance with the authority contained in Attachment A, Section J.3. of the Circular.

SECTION I: Rates

<u>Type</u>	<u>Effective Period</u>		<u>Rate*</u>	<u>Locations</u>	<u>Applicable To</u>
	<u>From</u>	<u>To</u>			
Final	7/1/74	6/30/75	10.65%	All	All Programs
Fixed	7/1/75	6/30/76	10.47%	All	All Programs
Fixed	7/1/76	6/30/77	10.28%	All	All Programs

*Base: Total direct salaries and wages.

Treatment of Fringe Benefits: Fringe benefits applicable to direct salaries and wages are treated as direct costs.

SECTION II: General

- A. **LIMITATIONS:** Use of the rate(s) contained in this agreement is subject to any statutory or administrative limitations and is applicable to a given grant or contract only to the extent that funds are available. Acceptance of the rate(s) agreed to herein is predicated upon the conditions: (1) that no costs other than those incurred by the grantee/contractor or allocated to the grantee/contractor via an approved Central Service cost allocation plan were included in its indirect cost pool as finally accepted and that such incurred costs are legal obligations of the grantee/contractor and allowable under the governing cost principles, (2) that the same costs that have been treated as indirect costs have not been claimed as direct costs, (3) that similar types of costs have been accorded consistent treatment, and (4) that the information provided by the grantee/contractor which was used as a basis for acceptance of the rate(s) agreed to herein is not subsequently found to be materially inaccurate.
- B. **AUDIT:** Adjustments to amounts resulting from audit of the cost allocation plan upon which the negotiation of this agreement was based will be compensated for in a subsequent negotiation.
- C. **CHANGES:** If a fixed or predetermined rate(s) is contained in this agreement it is based on the organizational structure and the accounting system in effect at the time the proposal was submitted. Changes in the organizational structure or changes in the method of accounting for costs which affect the amount of reimbursement resulting from use of the rate(s) in this agreement, require the prior approval of the authorized representative of the responsible negotiation agency. Failure to obtain such approval may result in subsequent audit disallowances.
- D. **FIXED RATE(S):** The fixed rate(s) contained in this agreement is based on an estimate of the costs which will be incurred during the period for which the rate applies. When the actual costs for such period have been determined, an adjustment will be made in the negotiation following such determination to compensate for the difference between that cost used to establish the fixed rate and that which would have been used were the actual costs known at the time.
- E. **NOTIFICATION TO FEDERAL AGENCIES:** Copies of this document may be provided to other Federal offices as a means of notifying them of the agreement contained herein.
- F. **SPECIAL REMARKS:** Federal programs currently reimbursing indirect costs to this Department/Agency by means other than the rate(s) cited in this agreement should be credited for such costs and the applicable rate cited herein applied to the appropriate base to identify the proper amount of indirect costs allocable to the program.

By the State or Local Department/Agency

Benjamin B. Knight /s/

Benjamin B. Knight
Name

Director of Fiscal Affairs
Title

July 6, 1976
Date

By the Responsible Agency for the Federal Govern-
ment

Department of Health, Education, & Welfare
Agency

Truman P. Burrus /s/

Truman P. Burrus
Name

Asst. Reg. Director for Fin. Mgmt.
Title

Date July 15, 1976

Negotiated by Harry D. Giles

Telephone _____

Appendix 4.b.—*NEGOTIATION AGREEMENT*
CENTRAL SERVICE COST ALLOCATIONS

DATE March 15, 1976

STATE/LOCALITY: (Insert name and address)

FILING REF.: This replaces
Negotiation Agreement
dated February 26, 1975

Pursuant to Federal Management Circular 74-4, the Department of Health, Education, and Welfare approves the central service costs cited in this agreement. This approval is subject to the conditions contained in Section III.

SECTION I: Costs Distributed Through Central Service Cost Allocation Plan

The central service costs listed in Exhibit A, attached, are approved on a fixed with carry-forward basis for the fiscal year ending June 30, 1977 and may be included as part of the costs of the departments/agencies indicated in Exhibit A for further allocation to Federal grants and contracts performed by the respective departments/agencies.

SECTION II: Costs Distributed Through Billing Mechanisms

In addition to the costs distributed through cost allocations cited in Section I, the costs of the general services listed below may be billed to user departments/agencies:

Office of General Services

1. Automatic Data Processing
2. Reproduction
3. Communication

Motor Pool

1. Automobiles
2. Buses
3. Trucks

Charges for the above services shall be billed in accordance with rates established by the State/locality as described in its Central Service Cost Allocation Plan. Department/agency indirect cost rate proposals must clearly identify those costs that have been distributed through billing mechanisms as-well-as costs included in Section I of this Agreement.

SECTION III

- A. **LIMITATIONS:** Use of the amounts contained in this agreement are subject to any statutory or administrative limitations and when ultimately allocated to individual grants or contracts through the indirect cost rates of each State/local department/agency, are applicable only to the extent that funds are available. Acceptance of the amounts agreed to herein is predicated on the conditions: (1) that no costs other than those incurred by the State/locality were included for distribution in its State/local-wide cost allocation plan as finally accepted and that such costs are legal obligations of the State/locality and allowable under the governing cost principles, (2) that similar types of costs have been accorded consistent accounting treatment, (3) that the information provided by the State/locality which was used as the basis for acceptance of the amounts or rates agreed to herein is not subsequently found to be materially incomplete or inaccurate.
- B. **CHANGES:** If fixed or predetermined amounts are contained in this agreement, they are based on the organizational structure and the accounting system in effect at the time the plan was prepared and the agreement was negotiated. These amounts are subject to modification if changes are made in the organizational structure or in the method of accounting for costs which affect the amount of reimbursement resulting from use of the amounts. The authorized representative of the responsible negotiation agency must be notified of such changes prior to their effective date. Failure to provide this notification may result in subsequent cost disallowances.
- C. **FIXED AMOUNTS:** If fixed amounts are contained in this agreement, they are based on an estimate of the costs that will be incurred during the period to which the amounts apply. When the actual costs for such period are determined, adjustments will be made in a subsequent negotiation to compensate for the differences between the costs used to establish the fixed amounts and the actual costs.
- D. **BILLED COSTS:** Charges for the services cited in Section II will be billed in accordance with rates established by the State/Locality and recorded on the books of the operating department/agency responsible for providing the services. Such charges will be based on the actual, allowable costs, as defined in FMC 74-4, incurred by the operating department/agency responsible for providing the services. Variances resulting from differences between billed allowable costs and the actual allowable costs for a particular accounting period will be compensated for by adjusting the rates in a subsequent accounting period.
- E. **NOTIFICATION TO FEDERAL AGENCIES:** Copies of this document may be provided to other Federal agencies as a means of notifying them of the agreement contained herein.
- F. **SPECIAL REMARKS:** None.

BY THE STATE/LOCALITY

John H. Carrington /s/

John H. Carrington
Name

Comptroller
Title

March 30, 1976
Date

By the Cognizant Negotiation Agency On Behalf of
the Federal Government

Department of Health, Education & Welfare
Agency

Truman P. Burrus /s/

Truman P. Burrus
Name

Ass't. Reg. Director for Fin. Mgmt.
Title

April 7, 1976
Date

Negotiated by Harry D. Giles

Telephone (216) 742-0651

EXHIBIT A

STATE/LOCAL CENTRAL SERVICE COST ALLOCATION PLAN
DISTRIBUTION OF CENTRAL SUPPORT SERVICE COSTS
FOR THE FIVE JUNE 30, 1977

Agreement dated
March 15, 1976

User Departments/Agencies	Central Service Costs					Totals	
	Budget	General Services	Audit and Control	Civil Service	Law		
Executive (exclusive of Budget and General Services)	\$ 302,667	\$ 2,056,147	\$ 681,695	\$ 387,436	\$ 71,768	\$ 20,159	\$ 3,519,872
Agriculture & Markets	27,558	518,364	33,811	76,445	55,418	1,808	713,404
Banking	16,316	(7,782)	33,009	11,831	(750)	811	53,435
Commerce	12,662	35,551	31,531	35,939	25,030	739	141,452
Conservation	147,816	1,059,365	321,038	312,272	607,644	7,783	2,455,918
Correction	174,064	301,451	371,028	523,313	413,114	12,416	1,795,386
Education (exclusive of University)	111,099	249,948	475,350	251,047	38,054	(812)	1,124,686
University	898,123	754,541	2,649,018	1,033,117	301,340	78,414	5,714,553
Health	140,218	781,496	682,885	407,001	253,713	10,473	2,275,786
Insurance	21,766	9,745	35,943	18,295	34,828	903	121,480
Labor (Main)	42,325	650,762	82,681	119,050	273,789	3,257	1,171,864
Division of Employment	212,981	155,181	328,306	141,174	11,230	-	848,872
Workmen's Compensation Board	43,162	57,812	51,784	17,454	130,081	2,323	302,616
State Insurance Fund	36,601	24,063	48,009	17,942	(990)	-	125,625
Mental Hygiene	1,326,761	1,224,505	2,306,318	4,846,576	999,261	121,818	10,825,239
Motor Vehicles	64,913	172,993	254,450	212,682	70,079	6,036	781,153
Narcotic Addiction Control Comm.	92,906	90,811	314,652	462,191	246,190	9,593	1,216,343
Public Service	18,691	76,222	10,919	40,336	(750)	1,205	146,623
Social Services	116,041	348,115	566,048	268,900	294,190	8,527	1,601,821
Equal Employment Opportunity Comm.	20,157	125,036	8,833	45,904	59,147	708	259,785
Taxation & Finance (exclusive of Treasury)	139,170	3,570,461	337,976	479,829	140,906	11,276	4,679,618
Transportation	460,824	2,432,979	1,166,366	1,186,318	5,773,961	26,253	11,046,701
Miscellaneous Boards & Commissions	56,458	151,307	106,208	78,324	226,283	1,663	620,243
Legislature	45,693	528,683	123,873	-	(1,500)	7,620	704,369
Judiciary	81,011	554,054	134,249	-	(3,750)	3,464	769,028
Totals	\$4,609,983	\$15,921,810	\$11,155,980	\$10,973,376	\$10,018,286	\$336,437	\$53,015,872

**Appendix 5—GUIDELINES ON COMPUTATION OF FIXED RATES
WITH CARRY-FORWARD PROVISION**

	<i>Page No.</i>
1. Exhibit A—Central Service Cost Allocation Plan	79
2. Exhibit B—Departmental/Agency Indirect Cost Proposal Carry-Forward Computation	81

DESCRIPTION OF EXHIBIT A

This Exhibit illustrates a carry-forward procedure for the accounting activity contained in a central service cost allocation plan. Similar computations must be made **individually** for each activity in the plan, e.g., payroll, purchasing, procurement service. In this example, the initial year in which amounts are first fixed is fiscal year 1974. Column (1) shows the amounts that were fixed for FY 1974. These amounts normally would be determined before FY 1974 commenced, and would be based either on an anticipation of FY 1974 results (e.g., using budgeted amounts, where budgeted amounts are an accurate reflection of expenditures that will be incurred during the budget year), or would be based on actual expenditures incurred in a prior year, such as expenditures for FY 1972. Column (2) shows the actual expenditures for FY 1974 after that year has been completed, while column (3) shows the amounts that will be carried-forward to a subsequent fiscal year. Column (3) shows individually for each department and agency, which costs were fixed in excess of actual amounts and which costs were fixed at amounts less than actual. These overrecoveries or underrecoveries in column (3) represent a carry-forward. In this example, the individual amounts of column (3) are carried-forward for recovery or credit to FY 1976. This is accomplished by adding or subtracting these underrecoveries and overrecoveries to amounts that it is anticipated will be incurred in FY 1976. If it cannot be determined what the amounts are that will be incurred in FY 1976, the State or local government can use known amounts as a basis for prediction, such as actual costs for FY 1974. Column (4) illustrates this approach. The fixed costs to be used for FY 1976 were arrived at by taking the actual costs for FY 1974 in column (2), and adding to them or subtracting from them, the amounts that are to be carried forward to FY 1976 from FY 1974, i.e., the amounts in column (3). Carry-forward amounts are usually carried-forward to a year other than the following year because the carry-forward amounts cannot be determined until sometime into the following year, which does not permit fixing that following year's amounts with a carry-forward included in the computation.

It is important to note that carry-forward computations are handled in cycles that include one or two skip years. For instance, in the example below, the cycle encompasses the FY's 1974, 1976, and 1978. Another cycle would encompass the FY's 1975, 1977, and 1979. This latter cycle would be handled similar to the illustration below except that it is initiated one year later than the first cycle. That means that amounts must be fixed for the fiscal year 1975, sometime before the commencement of FY 1975. Instructions given for the first cycle would apply equally to the second cycle except that the fiscal periods are different.

Returning to the illustration of the first cycle, it should be noted when a comparison is made between the fixed costs of FY 1976-column (4), and the actual costs of FY 1976-column (7), for purposes of determining the carry-forward-column (8), for use in fixing the amounts for FY 1978-column (9), that an adjustment must be made. This adjustment must be made for every subsequent year after the initial year of each cycle. The adjustment removes the carry-forward from the fixed amounts before comparison of the fixed amounts with the actual amounts. This adjustment is necessary to assure that subsequent carry-forward amounts are computed correctly. In the illustration below, the adjustment is accomplished by subtracting (or adding) the amounts in column (5) from the amounts in column (4) to arrive at the fixed amounts in column (6). Actual amounts in column (7), which **must not** include any carry-forward amounts, are then compared with the fixed amounts in column (6), to arrive at the amounts in column (8) that will be carried-forward to FY 1978. In this illustration, the carry-forward amounts of Column (8) are carried-forward to FY 1978-column (9), by adding (or subtracting) the amounts to the actual costs of FY 1976-column (7).

EXHIBIT A

SAMPLE FORMAT

CARRY-FORWARD COMPUTATION—ACCOUNTING ACTIVITY*
CENTRAL SERVICE COST ALLOCATION PLAN

Recipient Department or Agency	Initial Year		Subsequent Years							FY 1978
	FY 1974		FY 1976							Fixed FY 78 (Col 7 + Col 8) (9)
	Fixed FY 74 (1)	Actual FY 74 (2)	Difference Carry Fwd From FY 74 to FY 76 (Col 2 - Col 1) (3)	Fixed FY 76 (Col 2 + Col 3) (4)	Carry Fwd Included In FY 76 Fixed (Same as Col 3) (5)	Remove Carry Fwd Amount In FY 76 Fixed (Col 4 - Col 5) (6)	Actual FY 76 Excluding Carry Fwd (7)	Difference Carry Fwd From FY 76 to FY 78 (Col 7 - Col 6) (8)		
Community Affairs	\$ 2,338	\$ 4,810	\$ 2,472	\$ 7,282	\$ 2,472	\$ 4,810	\$ 5,120	\$ 310	\$ 5,430	
Finance and Control	4,395	6,552	2,157	8,709	2,157	6,552	7,330	778	8,108	
Motor Vehicles	9,015	10,429	1,414	11,843	1,414	10,429	9,910	(519)	9,391	
Labor	5,941	6,698	757	7,455	757	6,698	7,110	412	7,522	
Military	4,347	4,854	507	5,361	507	4,854	4,404	(450)	3,954	
Consumer Protection	1,453	1,269	(184)	1,085	(184)	1,269	1,525	256	1,781	
Human Resources	1,110	2,083	973	3,056	973	2,083	2,205	122	2,327	
Aeronautics	2,927	2,525	(402)	2,123	(402)	2,525	2,475	(50)	2,425	
Health	78,715	131,676	52,961	184,637	52,961	131,676	142,960	11,284	154,244	
Education	23,102	32,681	9,579	42,260	9,579	32,681	35,410	2,729	38,139	
Welfare	28,841	42,577	13,736	56,313	13,736	42,577	41,250	(1,327)	39,923	
State University	27,848	28,462	614	29,076	614	28,462	29,310	848	30,158	
Highway	196,133	49,891	(146,242)	(96,351)	(146,242)	49,891	51,105	1,214	52,319	
Mental Health	84,519	81,643	(2,876)	78,767	(2,876)	81,643	80,540	(1,103)	79,437	
Other Agencies (1)	187,410	203,970	16,560	220,530	16,560	203,970	230,190	26,220	256,410	
	<u>\$658,094</u>	<u>\$610,120</u>	<u>\$ (47,974)</u>	<u>\$562,146</u>	<u>\$ (47,974)</u>	<u>\$610,120</u>	<u>\$650,844</u>	<u>\$40,724</u>	<u>\$691,568</u>	

(1) These agencies do not perform federally-supported programs.

*This is a sample only and is not intended to prescribe methods of charging costs.

EXHIBIT B

SAMPLE FORMAT

CARRY-FORWARD COMPUTATION DEPARTMENTAL/AGENCY INDIRECT COST PROPOSAL

A fixed rate with carry forward-provision has characteristics of both a provisional rate, which is a temporary rate subject to adjustment, and a predetermined rate, which is a permanent rate not subject to adjustment. A rate is computed and fixed for a specified future period based on an estimate of that future period's level of operations. However, when the actual costs of that period become known, the difference between the estimated costs and the actual costs is carried-forward as an adjustment to a subsequent period for which a rate is established. The adjustment cannot be made in the fiscal period immediately following because the fixed rate for the immediately following fiscal period will already have been determined. An adjustment generally will be carried-forward to the second or third fiscal period following the period being adjusted. A fixed rate should be selected that will closely approximate the actual rate expected to be incurred. An accurate forecast will confine carry-forward amounts to minimal differences. The computation of a fixed rate with carry-forward at the department/agency level should include any provisions made for central service costs.

EXHIBIT B

SAMPLE FORMAT

**CARRY-FORWARD COMPUTATION*
DEPARTMENT/AGENCY INDIRECT COST PROPOSAL
DEPARTMENT X**

	Initial Year		Subsequent Years	
	FY 1974 (4)		FY 1976 (4)	FY 1978 (4)
(a) Fixed Rate Per Negotiation Agreement (A ÷ B) – Computed as follows:				
Direct S&W Base (1)		10.0%	11.4%	9.4%
Indirect Cost Pool:				
Departmental Costs (1)	\$470,123	\$4,932,675(B)	\$4,938,795(B)	\$4,880,450(B)
Department's Share of Central Service Costs (2)	23,144			\$458,745
Carry-Forward	-0-			35,281
Total Pool		\$ 493,267(A)	\$ 563,764(A)	(37,147)
Total Pool				\$ 456,879(A)
(b) Actual Costs Negotiated Computed as follows:				
Actual Direct S&W Base (3)		\$4,938,795	\$4,880,450	\$5,100,100
Actual Indirect Cost Pool:				
Departmental Costs (3)	\$503,285		\$458,745	\$486,270
Department's Share of Central Service Costs (2)	23,144		27,930	35,281
Carry-Forward	-0-		32,549	(37,147)
Total Pool		\$ 526,429	\$ 519,224	\$ 484,404
(c) Carry-Forward Computation:				
Recovered:				
Fixed Rate X Actual Direct S&W Base				
10.0% X \$4,938,795		\$ 493,880(E)		
11.4% X \$4,880,450			\$ 556,371(E)	
9.4% X \$5,100,100				\$ 479,409(E)
Should Have Recovered:				
Actual Indirect Costs For:				
FY 1974		\$ 526,429(F)		
FY 1976			\$ 519,224(F)	
FY 1978				\$ 484,404(F)
Underrecovery (F-E) – Carry-Forward to Subsequent Year				
Overrecovery (E-F) – Carry-Forward to Subsequent Year		\$ 32,549		\$ 4,995
				\$ 37,147

*This is a sample only and is not intended to prescribed methods of charging costs.

NOTES

- (1) In this illustration, the direct salary and wage base amounts and the departmental indirect cost amounts used for purposes of computing fixed rates, were predicated on actual amounts incurred in a previous year (viz. FY 72 actual costs were used as FY 74 costs). A grantee organization may use more current information for fixing rates, where that information is available, and where in the opinion of the Federal negotiator, the data available is adequate and reasonable. Generally, however, most grantees prefer using historical data.
- (2) These amounts were based on an approved State/local central service cost allocation plan which is summarized below. The cost allocation plan should not be submitted with the departmental carry-forward computation; it has been shown here merely to illustrate the source of this data in the departmental carry-forward computation. In most instances the carry-forward adjustment for central service costs is contained as part of the amount currently assessed each Department for central services and the Department need not be concerned with it.

**CENTRAL SERVICE COSTS ALLOCATED
TO DEPARTMENT X**

	<u>FY 1974</u>	<u>FY 1976</u>	<u>FY 1978</u>
Fixed Amount	\$23,144	\$25,537	\$30,409
Add (Deduct) Carry-Forward	<u>-0-</u>	<u>2,393</u>	<u>4,872</u>
Total Fixed Amount	\$23,144	\$27,930	\$35,281
Actual Amount	\$25,537	\$30,409	\$28,779
Add (Deduct) Carry-Forward	<u>-0-</u>	<u>2,393</u>	<u>4,872</u>
Total Actual Amount	25,537	32,802	33,651
Carry-Forward	<u>\$ 2,393</u>	<u>\$ 4,872</u>	<u>\$ (1,630)</u>

- (3) Based on actual costs for the FY's 74, 76, and 78. These costs are normally known soon after the completion of each of these respective fiscal years, and are obtained from the grantee's records and reflected in the indirect cost proposals submitted to and approved by the cognizant Federal negotiator.
- (4) A second cycle would be initiated for the odd number years (i.e., FY 75, 77, and 79) similar to the cycle illustrated above for the even numbered years. The initial year of the odd numbered years would be FY 75. The FY 75 fixed rate computation would be negotiated prior to the beginning of FY 75, would not include a carry-forward amount in the computation of the fixed amount, and would probably use FY 73 actual costs as a basis for fixing FY 75 costs.
- (5) The sample above illustrates a department with a single indirect cost rate. Rather than use a single indirect cost rate, some departments will develop multiple rates, i.e., a separately computed indirect cost rate for each division in the department. The same procedures should be followed for a department or agency for which more than one rate is developed, except that a separate carry-forward amount must be computed for every division. The department's share of central service costs and share of departmental indirect costs will have been distributed to each division to arrive at divisional indirect cost rates, so that no special treatment needs to be accorded these costs on a divisional rate basis that has not already been stated for the single rate basis.

**SECTION VI—ADDRESSES OF FEDERAL OFFICES TO
CONTACT REGARDING THE REQUIREMENTS OF CIRCULAR 74-4**

Each Federal agency responsible for auditing and approving cost allocation plans, indirect cost proposals and other cost center proposals prepared by States and localities under Circular 74-4 has designated an office or offices which will carry out that responsibility. The offices and addresses for each agency are:

Community Services Administration
Office of the Controller
Community Services Administration
1200-19th Street, N.W., Room 324
Washington, D.C. 20506

Department of Agriculture
Director, Office of Management & Finance
U.S. Department of Agriculture
Room 102A, Administration Bldg.
14th and Independence Avenue, S.W.
Washington, D.C. 20250

Department of Health, Education, and Welfare
*Assistant Regional Directors for Financial
Management—Address*

Region I:

John Fitzgerald Kennedy Federal Bldg.
Government Center
Boston, Massachusetts 02203

Region II:

Federal Office Bldg.
26 Federal Plaza
New York, New York 10007

Region III:

Gateway Building
3535 Market Street
P.O. Box 13716
Philadelphia, Pennsylvania 19101

Region IV:

Peachtree-Seventh Bldg.
50-7th Street, N.E.
Atlanta, Georgia 30323

Department of Commerce
Director
Office of Audits
U.S. Department of Commerce
14th and Constitution Avenue, N.W.
Washington, D.C. 20230

Department of Defense
Defense Civil Preparedness Agency COMP/AUD
Department of Defense, 1055 CWB
The Pentagon
Washington, D.C. 20301

For State & Local Agencies In:

Connecticut, Maine, Massachusetts, New
Hampshire, Rhode Island, Vermont

New Jersey, New York, Puerto Rico

Delaware, Maryland, Pennsylvania, Washing-
ton, D.C., West Virginia, Virginia

Alabama, Florida, Georgia, Kentucky, Mis-
sissippi, North Carolina, South Carolina,
Tennessee

Department of Health, Education, and Welfare (Continued)

Assistant Regional Directors for Financial
Management – Address

For State & Local Agencies In:

Region V:

300 S. Wacker Drive
Chicago, Illinois 60606

Illinois, Indiana, Michigan, Minnesota, Ohio,
Wisconsin

Region VI:

1200 Main Tower
Dallas, Texas 75202

Arkansas, Louisiana, New Mexico, Oklahoma,
Texas

Region VII:

Federal Office Bldg.
601 East 12th Street
Kansas City, Missouri 64106

Iowa, Kansas, Missouri, Nebraska

Region VIII:

Federal Office Bldg.
1961 Stout Street
Denver, Colorado 80202

Colorado, Montana, North Dakota, South
Dakota, Utah, Wyoming

Region IX:

Federal Office Bldg.
50 Fulton Street
San Francisco, California 94102

Arizona, California, Hawaii, Nevada

Region X:

Arcade Building
1321 Second Avenue
Seattle, Washington 98101

Alaska, Idaho, Oregon, Washington

Department of Housing and Urban Development*
Attn: Regional Administrator
HUD Regional Office

Region I:

John F. Kennedy Federal Bldg.
Room 405
Boston, Massachusetts 02203

Region II:

26 Federal Plaza
New York, New York 10007

Region III:

Curtis Building
6th and Walnut Streets
Philadelphia, Pennsylvania 19106

Region IV:

211 Pershing Point Plaza
1371 Peachtree Street, N.E.
Atlanta, Georgia 30309

Region V:

300 South Wacker Drive
Chicago, Illinois 60606

Region VI:

New Dallas Federal Bldg.
1100 Commerce Street
Dallas, Texas 75202

Region VII:

Federal Office Bldg., Rm. 300
911 Walnut Street
Kansas City, Missouri 64106

Region VIII:

Federal Building
1961 Stout Street
Denver, Colorado 80202

Region IX:

450 Golden Gate Avenue
P.O. Box 36003
San Francisco, California 94102

Region X:

Arcade Plaza Bldg.
Room 226
Seattle, Washington 98101

*The States assigned to the HUD regional offices are the same as the Department of Health, Education & Welfare.

Department of Interior
Eastern Regional Audit Manager
Office of Audit and Investigation
Department of Interior, Ballston Towers #1
801 N. Arlington Street, Room 401
Arlington, Virginia 22217

Central Regional Audit Manager
Office of Audit and Investigation
Department of the Interior
1841 Wadsworth
Lakewood, Colorado 80215

Department of Labor*

Regions I and II

Regional Administrator for Audit
U.S. Department of Labor, OASAM
1515 Broadway - Room 3505
New York, New York 10036

Attn: Regional Cost Negotiator .

Region III

Assistant Director, DA&I
Office of Cost Determination
U.S. Department of Labor, OASAM
200 Constitution Ave., N.W., Room S 5030
Washington, D.C. 20210

Regions VI, VII and VIII

Regional Administrator for Audit
U.S. Department of Labor, OASAM
555 Griffin Square - Room 205
Griffin and Young Streets
Dallas, Texas 75202

Attn: Regional Cost Negotiator

Western Regional Audit Manager
Office of Audit and Investigation
Department of Interior
Federal Office Building, Room W2219
2800 Cottage Way
Sacramento, California 95825

Department of Justice
Director, Office of Management and Finance
Internal Audit Staff
Department of Justice
Chester Arthur Bldg., Room 5031
425 I Street, N.W.
Washington, D.C. 20530

Region IV

Regional Administrator for Audit
U.S. Department of Labor, OASAM
1371 Peachtree Street, N.E., Room 240
Atlanta, Georgia 30309

Attn: Regional Cost Negotiator

Region V

Regional Administrator for Audit
U.S. Department of Labor, OASAM
Federal Office Bldg., Room 960
230 S. Dearborn Street
Chicago, Illinois 60604

Attn: Regional Cost Negotiator

Regions IX and X

Regional Administrator for Audit
U.S. Department of Labor, OASAM
450 Golden Gate Ave., Rm. 9403
San Francisco, California 94102

Attn: Regional Cost Negotiator

*The states assigned to the Dept. of Labor regional offices are the same as the Dept. of Health, Education & Welfare

Department of Transportation
Office of Installation and Logistics
TAD-60
Department of Transportation
400 7th Street, S.W.
Washington, D.C. 20590

National Foundation on the Arts and the Humanities
Audit Supervisor
National Foundation on the Arts & the Humanities
806-15th Street, N.W., Room 516
Washington, D.C. 20506
Mail Stop 201

Environmental Protection Agency
Chief, Cost Policy & Review Branch, (PM-214C)
Environmental Protection Agency
Room 711
Crystal Mall #2
Washington, D.C. 20460

National Science Foundation
Audit Officer
National Science Foundation
1800 G Street, N.W., Room 245
Washington, D.C. 20550

Law Enforcement Assistance Administration
Comptroller
Law Enforcement Assistance Administration
Department of Justice
633 Indiana Avenue, N.W., Room 942
Washington, D.C. 20530

Veterans Administration
Assistant Director for Accounting Systems (047D)
Finance Service
Office of Controller
Veterans Administration
810 Vermont Avenue, N.W.
Washington, D.C. 20420

OFFICE OF THE ASSISTANT SECRETARY, COMPTROLLER
CURRENTLY EFFECTIVE INDIRECT COST AND GRANT
POLICY PUBLICATIONS*

- GRANTS ADMINISTRATION MANUAL – Department Staff Manual
- OASC-1 A GUIDE FOR COLLEGES AND UNIVERSITIES – Cost Principles and Procedures for Establishing Indirect Cost and Other Rates for Grants and Contracts with the Department of Health, Education, and Welfare (Revised)
- OASC-3 A GUIDE FOR HOSPITALS – Cost Principles and Procedures for Establishing Indirect Cost and Patient Care Rates for Grants and Contracts with the Department of Health, Education, and Welfare (Revised)
- OASC-5 A GUIDE FOR NON-PROFIT INSTITUTIONS – Cost Principles and Procedures for Establishing Indirect Cost and Other Rates for Grants and Contracts with the Department of Health, Education, and Welfare (Revised)
- OASC-10 A GUIDE FOR STATE AND LOCAL GOVERNMENT AGENCIES – Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Grants and Contracts with the Federal Government. **

*All of these publications are available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

**This publication replaces OASC-6, A Guide for State Government Agencies; OASC-8, A Guide for Local Government Agencies.

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