Indirect Cost Recovery



USING FEDERAL FUNDS TO RECOVER
"INDIRECT COSTS"

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WHY ARE INDIRECT COST RATES NEEDED?



To provide a uniform method

- o Funding indirect costs
- o Charging indirect costs

To provide an equitable allocation of indirect costs across all projects

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Overview



The discussion will include a review of common definitions related to indirect cost area

You will be more familiar with indirect cost rate calculations, application for rates for your district and requirements for reimbursement

Determine the applicability of ICR rates for your district

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The "Cost" of Doing Business



Direct Costs

- Federal grants fund specific activities related to meeting the goals of the project
- Title I teacher in a Title I targeted assistance school

Indirect Costs

 Grant activities generate operational costs such as supervision and payroll, but are not directly related to conducting the grant activities

IMPORTANT DEFINITIONS



<u>Indirect cost rate</u>: a device for determining in a reasonable manner the proportion of indirect costs each program should bear

- \circ It is a method for allocating indirect costs to projects
- o The ratio between indirect costs (pool) and an equitable base

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Recovering Funds for Indirect Costs



- Indirect Cost Recovery: Acknowledgement by the Federal Government that federally funded programs incur more than just costs directly related to the project
 - o Depends on federal grant type
 - o Sub-recipient must have an established indirect rate
 - This rate / percentage can be applied against the federal grant to recover funds to offset it's operating costs
 - Outlined in OMB Circular A-87

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DEFINITIONS (cont'd)



- <u>Direct costs</u>: those costs that can be specifically identified with a particular final cost objective (for example a particular award)
- <u>Indirect costs</u>: those costs that have been incurred for common or joint objectives and cannot be readily identified with a particular cost objective (overhead, G & A)

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Types of Direct Costs



- Teacher salary /benefits
- Professional development
- Equipment
- Transportation
- Instructional materials
- Contracted services

General Management



Direct Costs

operation, including the

Limited to one school.

subject or phase of

- supervision of o Instruction
- o Guidance
- o Attendance
- Transportation
- o Student Services

Indirect Costs

- Benefits several activities and programs, including the performance of
- Accounting
- o Payroll
- Auditing
- o Personnel Management
- Purchasing
- o Employee Relations

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General Management



- Superintendent Costs Not allowed as a direct cost on federal grants or recovered through indirect
- o Salary / benefits or any expenditures related to the operation of the Superintendent's office
- Principal's Costs May be allowed as a direct cost on federal grants but always included as a direct cost in the restricted indirect rate calculation

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(11)

Direct or Indirect?

Can you determine actual costs generated by the program?

Certain indirect costs may be categorized as direct costs depending on how they are tracked:

- Bookkeeper
- IT Staff
- General supplies
- Copying / Printing
- Postage
- Phone

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UNALLOWABLE COSTS



- OMB Circular A-87, Unallowable Activities:
 - o Organized fund raising
 - Lobbying
 - o Lawsuits against the government
- o Bad debts
- o Contributions and donations
- o Fines and penalties
- o Entertainment
- o Equipment and other capital expenditures

Establishing an Indirect Rate



- Two rates determined annually by DPI
 - DPI's Indirect Cost Plan
 - "Restricted" and "Unrestricted" rates
 - Based on audited financial data collected from the PI-1505 annual reports
- Department of Ed Restricted Rates (lower)
 - Used for federal grants that have a supplement not supplant provision (34 CFR §76.563)

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RESTRICTED VS. UNRESTRICTED



- Restricted rate is calculated by taking the unrestricted rate and modifying it so as to exclude certain maintenance and operation expenditures
- Both rates are calculated by DPI
- Most grants only allow restricted rate to be used due to non-supplanting regulations

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RESTRICTED VS. UNRESTRICTED



Why the distinction?

- Certain Dept of ED grant programs have a statutory requirement prohibiting the use of federal funds to supplant non-federal funds
- o Supplanting? Ambiguous concept that does not allow the use of federal funds to 'replace' otherwise local funds for certain expenditures
 - **▼** Very difficult to prove this quantifiably

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INDIRECT COST PROPOSAL



Formal plan and methodology for calculating rates on a consistent basis

- Organizational review
- Tying costs to functions
- O Submission of plan to Cognizant Agency
- o Federal Review
- $\circ \, Negotiation$
- o Issuance of Rate Agreement

INDIRECT COST PROPOSAL



What does this mean for Wisconsin schools?

- o DPI establishes ICR plan for all districts
- o DPI negotiates with Dept of ED
- \circ Every 5 years the plan is resubmitted and new agreement is reached
- O Available on DPI website:
 - * http://www.dpi.state.wi.us/sfs/indirect.html

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Fixed Rate with Carry-Forward Provision?



- The predetermined rate is an ICR applicable to a specified year (current fiscal year) based upon an ESTIMATE of current year costs
- Fixed Rate with Carry-Forward ICR is the same as a predetermined rate except the differences between actual and estimated costs are 'carried forward' and become part of the rate calculation currently

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TYPES OF RATES



- Provisional/Final
- Predetermined
- Fixed-Rate with Carry-forward**
- Temporary 'billing' rate
- **Used by WI school districts

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Establishing an Indirect Rate



- Current year's rate is based on the second preceding fiscal year's audited financial data
- Restricted Indirect Rate Calculation:

FY 2012-13 Total Allowed Indirect Costs \$50.000

FY 2012-13 Total Direct Cost Base \$800.000 FY 2014-15 Restricted Indirect Rate:

6.25%



Establishing an indirect rate

Costs that are considered indirect for the purpose of determining the restricted indirect rate

FY 2011-12 **Total Allowed Indirect Costs**

\$50,000

FUND 10

251 000 Direction of Business

252 000 Fiscal

259 000 Other Business Administration

260 000 Central Services

These functions include business operations, financial and property accounting, payroll, inventory control, information technology services

** NOTE – Restricted indirect rate calculation does not include utility costs

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CALCULATIONS



DPI calculates rates for all districts

- o For 2014-15, rates based upon audited 2012-13 Annual Report data
- Carry-forward provision is determined
- o Form PI-1161 is submitted if adjustment to DPI calculations are requested
- o November 1 is deadline for submitting adjustments
- o DPI notifies districts of adjusted rates and posts to website in December

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Establishing an indirect rate

Costs that are considered direct for the purposes of determining the restricted indirect rate

> FY 2011-12 **Direct Cost** Base

\$800,000

100 000 Instruction

210 000 Support Services (SS) - Pupil

FUND 10, 20, 50, 72, 80, 90

220 000 SS - Instructional Staff

230 000 SS - General Administration

240 000 SS - School Bldg Admin

255 000 SS - Facilities

256 000 SS - Transportation

258 000 SS - Internal Services

270 000 SS - Insurance

290 000 SS - Other Support

430 000 SS - General Tuition Payments

These functions include wages, benefits and other direct costs BUT the calculation excludes capital equipment purchases, retirement and termination payments.

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Indirect rates for all districts (School Financial Services)

http://sfs.dpi.wi.gov/sfs_indirect

Indirect Cost Rate Computation for School Districts

Indirect Cost Rates for 2013-2014. 34 Indirect Cost Rates for 2012-2013 Indirect Cost Rates for 2011-2012 Indirect Cost Rates for 2010-2011 ¾ Indirect Cost Rates for 2009-2010. Indirect Cost Rates for 2008-2009

Abbotsford (0007) Adams-Friendship Area (0014) 4.17 Albany (0063) 2.26 5.34 Algoma (0070) Alma (0084) 2.93 Alma Center (0091) 3.92 Almond-Bancroft (0105) 3.24

CESA/CCDEB/School District

Restricted Unrestricted

Rate (%)

18.81

13.74

9.28

14.13

14.97

14.71

13.54

Rate (%)

Indirect Cost Rates for 2007-2008 34 Indirect Cost Rates for 2006-2007 ≒ Indirect Cost Rates for 2005-2006

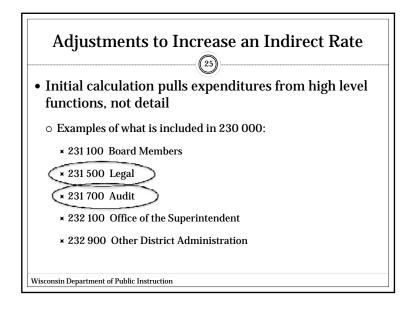
Indirect Cost Rates for 2004-2005

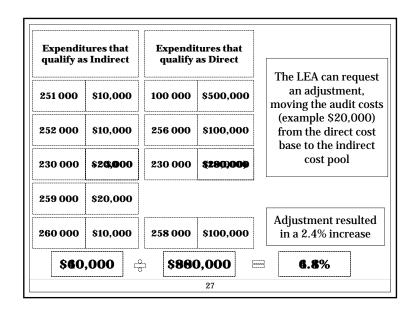
Indirect Cost Rates for 2003-2004 ⅓ Indirect Cost Rates for 2002-2003

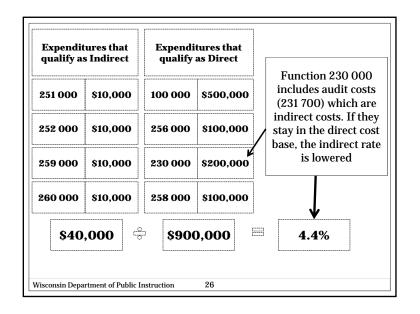
Indirect Cost Rates for 2001-2002

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24



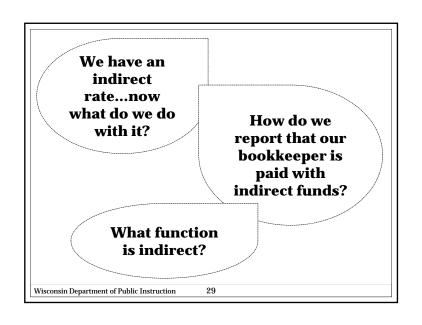


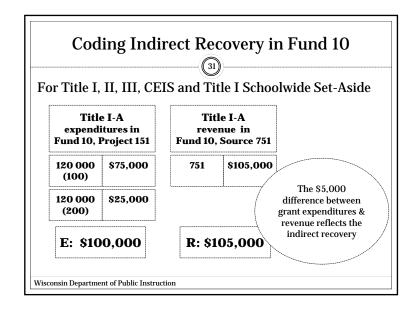






- Legal Costs
- $\circ\,$ Preparation of policy, interpretation of laws and regulations
- School Census Costs
- Audit costs
- District Insurance
 - o Liability
 - Property
- o Fidelity bond premiums
- O Worker's compensation
- Unemployment compensation





Recovering Indirect through the Federal Grant Budget Software

IDEA, Title I, II and III

Technical Assistance Documents with step-by-step instructions, including screen shots:

 $IDEA: \ \underline{http://dpi.wi.gov/sites/default/files/imce/wisegrants/pdf/indirect-idea.pdf}$

Title I: http://dpi.wi.gov/sites/default/files/imce/wisegrants/pdf/indirect-title-I.pdf

 $\label{lieq:lie} \begin{tabular}{ll} Title II: $$\underline{http://dpi.wi.gov/sites/default/files/imce/wisegrants/pdf/indirect-title-II.pdf \end{tabular}$

Title III: http://sped.dpi.wi.gov/sites/default/files/imce/wisegrants/pdf/indirect-title-III.pdf

Recorded webinar (this presentation, plus software demonstration): http://sped.dpi.wi.gov/sites/default/files/imce/wisegrants/av/indirect-cost-recovery.wmy

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30

Coding Indirect Recovery in Fund 27

- (32)-

For flow-through and preschool

Record Indirect Revenue Received from DPI

Fund	Туре	Object / Source	Function	Debit	Credit	
27	В		711 100	\$XX.XX		
27	R	730			\$XX.XX	

Record Indirect Cost Transfer Between Funds

Fund	Type	Object / Source	Function	Debit	Credit
27	E	810	418 000	\$XX.XX	
27	В		711 100		\$XX.XX
	D		711 100	SXX.XX	I
10	ь	i	,111100	V	1

Charging Bookkeepers as a Direct Grant Cost

(33)

Allowed for some grants (such as IDEA) – if the individual keeps appropriate time and effort records.

BUT

If the LEA plans to claim indirect recovery, and the LEA charged a normally indirect cost as a direct cost on the grant in the year the indirect rate is based, the LEA is required to report an adjustment and subtract the amount of costs charged to the federal grant from the indirect cost pool.

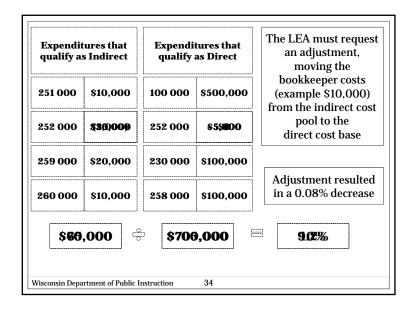
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Indirect Cost Rate Adjustment, PI-1161

http://sfs.dpi.wi.gov/files/forms/pdf/pod1161.pdf

		I. ACCOU	NT ADJUSTMENTS (Opio	nail)			
Some General Funds costs o	oan be considered both :	residented and unresiden	ded indirect austs. Flefer to	detailed instructio	ns in Local	Educational Agency Indic	d Cool Plan
Account Code		unt Name	Indirect Restricted	Indirect Unrestricted		Direct Cost	Excluded Cost
10 - 231 700	Audit		\$20,000	\$20,00	0	(\$20,000)	\$0
27 - 252 000	Fincal		(S 5,000)	(\$ 5,000	2)	\$ 5,000	50
		Total Adjustments	\$ 15,000	\$15,000		(\$15,000)	\$0

35



Why Claim Indirect?



- Costs that are by nature indirect should be covered by the indirect cost recovery — no time & effort requirement and does not restrict what the individual works on.
- Assists in reducing the amount of federal funds carried across fiscal years.
- Provides the LEA relief for indirect costs that are generated by supporting the large federal programs.

2r Charter School Applicability



- 2r Charter Schools are considered LEAs and, therefore, are covered by the current approved WI Indirect Cost Plan with the Dept of Education
- The 10% deminimus rate provision in the Omni-Circular will not apply
- Any 2r Charter Schools electing to utilize indirect costs will have to contact DPI to calculate rates

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Technical Assistance

School Financial Services Indirect Page:

http://sfs.dpi.wi.gov/sfs_indirect

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Federal Grant Indirect Overview:

http://dpi.wi.gov/files/wisegrants/pdf/indirect-fed.pdf

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38