

# Indirect Cost Recovery

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## USING FEDERAL FUNDS TO RECOVER “INDIRECT COSTS”

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## Overview

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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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## WHY ARE INDIRECT COST RATES NEEDED?

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*To provide a uniform method*

- Funding indirect costs
- Charging indirect costs

*To provide an equitable allocation of indirect costs across all projects*

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## The “Cost” of Doing Business

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### 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

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## IMPORTANT DEFINITIONS

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

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

## DEFINITIONS (cont'd)

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

## Recovering Funds for Indirect Costs

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

## Types of Direct Costs

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

## General Management

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### Direct Costs

- Limited to one school, subject or phase of operation, including the supervision of
  - Instruction
  - Guidance
  - Attendance
  - Transportation
  - Student Services

### Indirect Costs

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

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## General Management

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- Superintendent Costs - Not allowed as a direct cost on federal grants or recovered through indirect
  - 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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### 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

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

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## Establishing an Indirect Rate

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- 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)

## RESTRICTED VS. UNRESTRICTED

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### Why the distinction?

- Certain Dept of ED grant programs have a statutory requirement prohibiting the use of federal funds to supplant non-federal funds
- 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

## RESTRICTED VS. UNRESTRICTED

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- 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

## INDIRECT COST PROPOSAL

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### Formal plan and methodology for calculating rates on a consistent basis

- Organizational review
- Tying costs to functions
- Submission of plan to Cognizant Agency
- Federal Review
- Negotiation
- Issuance of Rate Agreement

## INDIRECT COST PROPOSAL

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### What does this mean for Wisconsin schools?

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

## TYPES OF RATES

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- Provisional/Final
- Predetermined
- Fixed-Rate with Carry-forward\*\*
- Temporary 'billing' rate

\*\*Used by WI school districts

## Fixed Rate with Carry-Forward Provision?

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- 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

## Establishing an Indirect Rate

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- 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%**

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### 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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### 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**

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

100 000 Instruction  
210 000 Support Services (SS) - Pupil  
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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## CALCULATIONS

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### DPI calculates rates for all districts

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

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### Indirect rates for all districts (School Financial Services)

[http://sfs.dpi.wi.gov/sfs\\_indirect](http://sfs.dpi.wi.gov/sfs_indirect)

#### Indirect Cost Rate Computation for School Districts

Indirect Cost Rates for 2013-2014		Restricted	Unrestricted
Indirect Cost Rates for 2012-2013		Rate (%)	Rate (%)
Indirect Cost Rates for 2011-2012	CESA/CCDEB/School District		
Indirect Cost Rates for 2010-2011	Abbotsford (0007)	4.76	18.81
Indirect Cost Rates for 2009-2010	Adams-Friendship Area (0014)	4.17	13.74
Indirect Cost Rates for 2008-2009	Albany (0063)	2.26	9.28
Indirect Cost Rates for 2007-2008	Algoma (0070)	5.34	14.13
Indirect Cost Rates for 2006-2007	Alma (0084)	2.93	14.97
Indirect Cost Rates for 2005-2006	Alma Center (0091)	3.92	14.71
Indirect Cost Rates for 2004-2005	Almond-Bancroft (0105)	3.24	13.54
Indirect Cost Rates for 2003-2004			
Indirect Cost Rates for 2002-2003			
Indirect Cost Rates for 2001-2002			

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## Adjustments to Increase an Indirect Rate

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- Initial calculation pulls expenditures from high level functions, not detail
  - Examples of what is included in 230 000:
    - 231 100 Board Members
    - 231 500 Legal
    - 231 700 Audit
    - 232 100 Office of the Superintendent
    - 232 900 Other District Administration

### Expenditures that qualify as Indirect

### Expenditures that qualify as Direct

251 000	\$10,000	100 000	\$500,000
252 000	\$10,000	256 000	\$100,000
259 000	\$10,000	230 000	\$200,000
260 000	\$10,000	258 000	\$100,000

Function 230 000 includes audit costs (231 700) which are indirect costs. If they stay in the direct cost base, the indirect rate is lowered

\$40,000

+

\$900,000

=

4.4%

### Expenditures that qualify as Indirect

### Expenditures that qualify as Direct

251 000	\$10,000	100 000	\$500,000
252 000	\$10,000	256 000	\$100,000
230 000	\$20,000	230 000	\$200,000
259 000	\$20,000		
260 000	\$10,000	258 000	\$100,000

The LEA can request an adjustment, moving the audit costs (example \$20,000) from the direct cost base to the indirect cost pool

Adjustment resulted in a 2.4% increase

\$60,000

+

\$880,000

=

6.8%

## Possible Adjustments

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

**We have an indirect rate...now what do we do with it?**

**How do we report that our bookkeeper is paid with indirect funds?**

**What function is indirect?**

## 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: <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>

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

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.wmv>

## Coding Indirect Recovery in Fund 10

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For Title I, II, III, CEIS and Title I Schoolwide Set-Aside

**Title I-A  
expenditures in  
Fund 10, Project 151**

**120 000 (100) \$75,000**

**120 000 (200) \$25,000**

**E: \$100,000**

**Title I-A  
revenue in  
Fund 10, Source 751**

**751 \$105,000**

**R: \$105,000**

The \$5,000 difference between grant expenditures & revenue reflects the indirect recovery

## Coding Indirect Recovery in Fund 27

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For flow-through and preschool

**Record Indirect Revenue Received from DPI**

Fund	Type	Object / Source	Function	Debit	Credit
27	B		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	B		711 100		\$XX.XX
10	B		711 100	\$XX.XX	
10	R	127	418 000		\$XX.XX



## Charging Bookkeepers as a Direct Grant Cost

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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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### Expenditures that qualify as Indirect

251 000 \$10,000

252 000 ~~\$30,000~~

259 000 \$20,000

260 000 \$10,000

### Expenditures that qualify as Direct

100 000 \$500,000

252 000 ~~\$5,000~~

230 000 \$100,000

258 000 \$100,000

The LEA must request an adjustment, moving the bookkeeper costs (example \$10,000) from the indirect cost pool to the direct cost base

Adjustment resulted in a 0.08% decrease

~~\$60,000~~

+

\$706,000

=

9.12%

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## Indirect Cost Rate Adjustment, PI-1161

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

I. ACCOUNT ADJUSTMENTS (Optional)					
Note: General Fund costs may be considered both restricted and unrestricted indirect costs. Refer to detailed instructions for Local Educational Agency Indirect Cost Plans.					
Account Code	Account Name	Indirect Restricted	Indirect Unrestricted	Direct Cost	Excluded Cost
10 - 201 700	Audit	\$ 20,000	\$20,000	(\$20,000)	\$0
207 - 202 000	Travel	(\$ 5,000)	(\$ 5,000)	\$ 5,000	\$0
Total Adjustments		\$ 15,000	\$15,000	(\$15,000)	\$0

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## Why Claim Indirect?

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- 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.

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## 2r Charter School Applicability

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- 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% de minimis 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

## Technical Assistance

### **School Financial Services Indirect Page:**

[http://sfs.dpi.wi.gov/sfs\\_indirect](http://sfs.dpi.wi.gov/sfs_indirect)

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[eugene.fornecker@dpi.wi.gov](mailto:eugene.fornecker@dpi.wi.gov)

### **Federal Grant Indirect Overview:**

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