Indirect Cost Recovery

USING FEDERAL FUNDS TO RECOVER “INDIRECT COSTS”
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.
WHY ARE INDIRECT COST RATES NEEDED?

To provide a uniform method
- Funding indirect costs
- Charging indirect costs

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

- **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

- 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 it’s operating costs
  - Outlined in OMB Circular A-87
Types of Direct Costs

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

<table>
<thead>
<tr>
<th>Direct Costs</th>
<th>Indirect Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Limited to one school, subject or phase of operation, including the supervision of</td>
<td></td>
</tr>
<tr>
<td>- Instruction</td>
<td></td>
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<tr>
<td>- Guidance</td>
<td></td>
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<tr>
<td>- Attendance</td>
<td></td>
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<tr>
<td>- Transportation</td>
<td></td>
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<tr>
<td>- Student Services</td>
<td></td>
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<tr>
<td>• Benefits several activities and programs, including the performance of</td>
<td></td>
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<tr>
<td>- Accounting</td>
<td></td>
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<tr>
<td>- Payroll</td>
<td></td>
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<tr>
<td>- Auditing</td>
<td></td>
</tr>
<tr>
<td>- Personnel Management</td>
<td></td>
</tr>
<tr>
<td>- Purchasing</td>
<td></td>
</tr>
<tr>
<td>- Employee Relations</td>
<td></td>
</tr>
</tbody>
</table>
General Management

• 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
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
UNALLOWABLE COSTS

- 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
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)
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

- 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.
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
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](http://www.dpi.state.wi.us/sfs/indirect.html)
TYPES OF RATES

- Provisional/Final
- Predetermined
- Fixed-Rate with Carry-forward**
- Temporary ‘billing’ rate

**Used by WI school districts
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

- 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

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

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

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**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

**FY 2011-12 Direct Cost Base**

$800,000

These functions include wages, benefits and other direct costs BUT the calculation excludes capital equipment purchases, retirement and termination payments.
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
## Indirect Cost Rate Computation for School Districts

<table>
<thead>
<tr>
<th>Indirect Cost Rates for 2013-2014</th>
<th>CESA/CCDEB/School District</th>
<th>Restricted Rate (%)</th>
<th>Unrestricted Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Abbotsford (0007)</td>
<td>4.76</td>
<td>18.81</td>
</tr>
<tr>
<td></td>
<td>Adams-Friendship Area (0014)</td>
<td>4.17</td>
<td>13.74</td>
</tr>
<tr>
<td></td>
<td>Albany (0063)</td>
<td>2.26</td>
<td>9.28</td>
</tr>
<tr>
<td></td>
<td>Algoma (0070)</td>
<td>5.34</td>
<td>14.13</td>
</tr>
<tr>
<td></td>
<td>Alma (0084)</td>
<td>2.93</td>
<td>14.97</td>
</tr>
<tr>
<td></td>
<td>Alma Center (0091)</td>
<td>3.92</td>
<td>14.71</td>
</tr>
<tr>
<td></td>
<td>Almond-Bancroft (0105)</td>
<td>3.24</td>
<td>13.54</td>
</tr>
</tbody>
</table>
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

| 251 000 | $10,000 |
| 252 000 | $10,000 |
| 259 000 | $10,000 |
| 260 000 | $10,000 |

Expenditures that qualify as Direct

| 100 000 | $500,000 |
| 256 000 | $100,000 |
| 230 000 | $200,000 |
| 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.

\[
\frac{40,000}{900,000} = 0.04444444444444444 = 4.4\%
\]
The LEA can request an adjustment, moving the audit costs (example $20,000) from the direct cost base to the indirect cost pool.

<table>
<thead>
<tr>
<th>Expenditures that qualify as Indirect</th>
<th>Expenditures that qualify as Direct</th>
</tr>
</thead>
<tbody>
<tr>
<td>251 000</td>
<td>100 000</td>
</tr>
<tr>
<td>252 000</td>
<td>256 000</td>
</tr>
<tr>
<td>230 000</td>
<td>230 000</td>
</tr>
<tr>
<td>259 000</td>
<td>258 000</td>
</tr>
<tr>
<td>260 000</td>
<td></td>
</tr>
</tbody>
</table>

Adjustment resulted in a 2.4% increase

\[
\frac{\$40,000}{\$880,000} = 4.4\% 
\]
Possible Adjustments

- 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:

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

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

<table>
<thead>
<tr>
<th>Title I-A expenditures in Fund 10, Project 151</th>
<th>Title I-A revenue in Fund 10, Source 751</th>
</tr>
</thead>
<tbody>
<tr>
<td>120,000 (100) $75,000</td>
<td>751 $105,000</td>
</tr>
<tr>
<td>120,000 (200) $25,000</td>
<td></td>
</tr>
</tbody>
</table>

**E: $100,000**

**R: $105,000**

The $5,000 difference between grant expenditures & revenue reflects the indirect recovery.
# Coding Indirect Recovery in Fund 27

For flow-through and preschool

## Record Indirect Revenue Received from DPI

<table>
<thead>
<tr>
<th>Fund</th>
<th>Type</th>
<th>Object / Source</th>
<th>Function</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>27</td>
<td>B</td>
<td>711 100</td>
<td></td>
<td>$XX.XX</td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>R</td>
<td>730</td>
<td></td>
<td></td>
<td>$XX.XX</td>
</tr>
</tbody>
</table>

## Record Indirect Cost Transfer Between Funds

<table>
<thead>
<tr>
<th>Fund</th>
<th>Type</th>
<th>Object / Source</th>
<th>Function</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>27</td>
<td>E</td>
<td>810</td>
<td>418 000</td>
<td>$XX.XX</td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>B</td>
<td>711 100</td>
<td></td>
<td></td>
<td>$XX.XX</td>
</tr>
<tr>
<td>10</td>
<td>B</td>
<td>127</td>
<td>418 000</td>
<td>$XX.XX</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>R</td>
<td></td>
<td></td>
<td></td>
<td>$XX.XX</td>
</tr>
</tbody>
</table>
Charging Bookkeepers as a Direct Grant Cost

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.
Expenditures that qualify as Indirect

251 000  |  $10,000
252 000  |  $35,000
259 000  |  $20,000
260 000  |  $10,000

Expenditures that qualify as Direct

100 000  |  $500,000
252 000  |  $500,000
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.

\[
\frac{689,000}{709,000} = 0.962\%
\]
# Indirect Cost Rate Adjustment, PI-1161


## I. ACCOUNT ADJUSTMENTS (Optional)

Some General Funds costs can be considered both restricted and unrestricted indirect costs. Refer to detailed instructions in Local Educational Agency Indirect Cost Plan.

<table>
<thead>
<tr>
<th>Account Code</th>
<th>Account Name</th>
<th>Indirect Restricted</th>
<th>Indirect Unrestricted</th>
<th>Direct Cost</th>
<th>Excluded Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 - 231 700</td>
<td>Audit</td>
<td>$20,000</td>
<td>$20,000</td>
<td>($20,000)</td>
<td>$0</td>
</tr>
<tr>
<td>27 - 252 000</td>
<td>Fiscal</td>
<td>($5,000)</td>
<td>($5,000)</td>
<td>$5,000</td>
<td>$0</td>
</tr>
</tbody>
</table>

**Total Adjustments**

$15,000 | $15,000 | ($15,000) | $0
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.
Technical Assistance

School Financial Services Indirect Page:  
http://sfs.dpi.wi.gov/sfs_indirect

Gene Fornecker, 608/267-7882  
eugene.fornecker@dpi.wi.gov

Federal Grant Indirect Overview:  