

Procedure: Restricted and Unrestricted Indirect Cost Rates	Policy: Allowable Uses of Funds and Adherence to Cost Circulars		Number: GP0800.4
	() Complete Revision () Partial Revision (X) New	Supersedes:	Page: Page 1 of 13

Overview of Procedure

A complete understanding of indirect costs and rates requires background discussion and definitions prior to defining their use and administration at the SDP.

Introduction

Federal Uniform Grant Guidance (codified at 2 CFR Part 200) establishes the cost principles and standards for determining the allowable costs of federally funded grants and contracts administered by state and local governments and contains provisions for determining indirect cost rates for grantees and sub grantees of federal grants. The objectives of the Guidance are:

1. *Establish uniform standards of allowability.* All federal agencies agree to recognize the central service costs which benefit grant programs as allowable costs of those programs, so long as they are calculated in accordance with the Circular.
2. *Establish uniform standards of allocation.* All federal agencies accept the method of allocation agreed to by the “cognizant” federal agency. Costs are allocated to the benefiting departments regardless of the funding source or the ability of that source to pay.
3. *Identify the full cost of federal programs.* By identifying, accumulating, and allocating all allowable direct and indirect costs to the program for which the cost was incurred, the exact cost of all federal programs may be determined.
4. *Ensure federal programs bear their fair share of costs.* Only by identifying and allocating all direct and indirect costs within a central service cost allocation plan in conformity with the Circular will localities be reimbursed for the total cost of federal programs.
5. *Simplify intergovernmental relations.* Under the UGG concept of the “cognizant” agency, one agency with one group of reviewers approves a cost plan. All other agencies accept the plan. Thus, uniform methods of allocation and allowability are applied to all federal grants.
6. *Encourages consistency of treatment.* Grantee organizations are encouraged to process all grant applications through a central office that is also aware of the basis of which an indirect cost rate was developed to minimize inconsistent treatment.

The Pennsylvania Department of Education (PDE) has been delegated the authority by the United States Department of Education (US-DOE) to review indirect cost applications and to approve indirect cost rates for Local Education Agencies (LEAs) after receiving approval from US-DOE for the methodology used. In order to bill/recover indirect costs for a particular fiscal year, LEAs must obtain indirect cost rate approval for that particular fiscal year.

Indirect Cost Rates

An indirect cost rate is a means of determining in a reasonable manner the percentage of allowable general management costs that each federal grant should bear. Indirect costs are general and administrative costs such as the salaries and expenses for people who are engaged in cross-cutting management activities from which the entire LEA benefits.

Indirect costs are recovered only to the extent of direct costs incurred. Once a rate is received it is applied to the net direct cost amount expended (total direct costs less equipment purchases, alterations and renovations, and usually the portion of individual subawards exceeding \$25,000). The subaward (subrecipient) costs exceeding \$25,000 for federal grants must be excluded from the indirect cost calculation. Each year the indirect cost rate will be applied only to the first \$25,000 of each subaward (subrecipient). The approved rate is the maximum rate and can be applied at less than the maximum.

The sources of information utilized to determine indirect cost rates are the LEA's official audited Comprehensive Annual Financial Report (CAFR) and the detailed general ledger accounts that make up that report. Therefore, it is essential that LEAs classify expenditures uniformly and consistently. Types of expenditures, which are identified as indirect costs, shall not also be included as direct costs. All expenditures detailed on the CAFR must have been made, and records supporting them must be maintained by the LEA.

Classification of Costs**Direct Costs**

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 assigned. Typical direct costs chargeable to a grant include, but are not limited to:

- a) Compensation of employees for the time devoted and identified specifically to the performance of those programs;
- b) Cost of materials acquired, consumed, or expended specifically for the purpose of those programs;
- c) Travel expenses incurred specifically to carry out the program; etc.

Indirect Costs

Indirect costs are those costs which are not readily identifiable with the activities of the grant but are, nevertheless, incurred for the joint benefit of those activities and other activities or programs of the organization.

In accordance with the UGG, indirect costs are costs meeting the following criteria:

- 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.

Generally, salaries and expenses for auditing, budgeting, payroll, personnel, purchasing, and employee relations are examples of services which typically benefit several activities and programs for which costs may be attributed by means of an indirect cost proposal. In theory, all such costs can

be charged directly. However, practical limitation and consideration of efficiency in accounting preclude such an approach and therefore these costs are considered indirect.

A cost may not be allocated to a federal financial assistance program as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a federal financial assistance program as a direct cost.

Due to the diverse characteristics and accounting practices of State and local agencies, the types of costs which may be classified as indirect costs cannot be specified in all situations. However, typical examples of indirect costs under OMB Circular A-87 may include: salaries of superintendents and direct reports, component managers, procurement, payroll, personnel functions, maintenance and operations of space, data processing, accounting, auditing, budgeting, communications (telephone, postage), etc.

Disallowed Costs

The UGG classifies certain items of cost as disallowed which means that the federal funds cannot be used for these purposes. These are costs directly attributable to governance. However, for rate computational purposes, these disallowed costs should be included in the base for allocation along with direct costs if they generated or benefited from allowable indirect cost. Examples of disallowed costs are:

- a) Bad Debts;
- b) Contingencies;
- c) Entertainment;
- d) Fines and Penalties;
- e) Governance; and
- f) Contributions and donations to outside organizations.

Excluded Costs

Certain items of costs are classified in the UGG as extraordinary or distorting expenditures and are excluded from the computation of the indirect cost rate. Excluded costs in this category include capital outlay, debt service, judgments against the school district, certain transfers, and internal service fund expenditures. For formula computational purposes, these costs are excluded from the rate computation. Indirect cost recoveries on federal or state programs and refunds returned on federal or state programs are also categorized as excluded costs.

Rate Types

Restricted Rates

The State Education Agency (SEA) for the Commonwealth of Pennsylvania computes a restricted rate for the SDP for use in each fiscal year based on the financial information the SDP provides. As described in the Education Department General Administrative Regulations (EDGAR), subparagraph 75.563, Restricted Rate – Programs Covered, and 76.563, Restricted Rate – Programs Covered, restricted rates are intended for use under grants with the “supplement not supplant” requirements, as such, restricted grants include only indirect costs consisting of **general management costs** and **fixed charges** as defined below:

General Management Costs: Consist of the salaries and expenses for employees performing accounting, payroll preparation, or personnel management activities. Those activities that are limited to one school, subject, or phase of operation, are not general management costs such as the salaries and expenditures related to the direction and supervision of such functions as instruction, guidance, attendance, transportation, community services, and student services. The costs of these functions are considered direct costs.

When calculating a **restricted indirect cost rate**, the term “General Management Costs” does not include expenditures for:

1. The governing body (members of the board of education) of the grantee;
2. Compensation of the chief executive officer (Superintendent of a school district) of the grantee normally allowable under the UGG; and
3. Operation of the immediate offices of these officers normally allowable under the UGG.

Accordingly, the superintendent’s and board of education’s salary, benefits, communications/telephone charges and other expenditures related directly to the operation of the Superintendent’s and board of education offices, specifically, are not included in indirect costs and are considered, for rate computation purposes, to be disallowed costs in the calculation of the **restricted indirect cost rate**.

An individual principal’s salary, benefits and expenditures related to the operation of the principal’s immediate offices are also not considered indirect costs. These costs are disallowed costs and are considered to be direct costs for rate computation purposes for both the **restricted and unrestricted rate**.

Fixed charges: Fixed charges classified as indirect costs are limited to those amounts which are associated with general management costs. The fixed charges can be viewed as appended to those administrative functions, and the classification rules are the same as those applied to salaries.

These expenditures are exclusively identified as:

- a) Employee retirement
- b) Social Security
- c) Pension fund payments
- d) Premium expenditures for:
 1. Employee insurance
 2. Liability insurance
- e) Unemployment and workers compensation, and
- f) All similar costs normally considered being employee fringe benefits.

No other items are to be classified as indirect fixed charges.

Unrestricted Rates

Unrestricted rates apply to grants not subject to the supplement but not supplant legislative restriction.

1. **Indirect Costs** - Expenditures for the Office of the Superintendent, direct reports, and component managers, in addition to operations and maintenance of plant are classified as an indirect cost when calculating an unrestricted rate. All other costs are classified the same as the restricted rate calculations.
2. **Direct Costs, Disallowed Costs, and Excluded Costs** are also classified the same as the restricted rate calculations.

Additional Documentation - Indirect Costs

Detailed records are required to support any indirect costs attributed to the “Support Services – General Administration” function. These records should contain a detailed analysis of costs classified as indirect which should include a justification or explanation as well as other pertinent information. Failure to provide adequate documentation may result in Single Audit questioned costs related to indirect cost recovery.

Additional Documentation - Excluded Costs

Schedules or other records that document the reporting of all expenditures recorded as excluded costs should be maintained. Failure to document that all excluded type costs have been reflected accurately may result in Single Audit comments relative to the indirect cost calculation.

Generally, records and documentation supporting the indirect cost allocation plan must be retained for a period of three years after the last day of the fiscal year to which the proposal applies or until audited, whichever occurs sooner. If audit exceptions have been noted, records must be retained until those exceptions have been resolved.

BUDGETING INDIRECT COSTS

Use of Rates

Once the applicable rate has been determined, the amount available to earn indirect cost dollars can be computed as follows:

To determine the amount available to be assessed Indirect Costs, the award amount less exclusions is divided by the combined percentage of 100.00 percent plus the applicable indirect cost rate percentage. For example: the indirect cost rate is 5.45 percent, the total entitlement for a Title 1 project is \$945,000.00, and the project included \$1,395.00 for capital outlay.

Grant Award	\$945,000.00
Less: Capital Outlay.....	... \$1,395.00
Net Available for Indirect and Direct Cost\$943,605.00

Amount Available to be Assessed Indirect Costs

$$\begin{aligned}
 & \$943,605 \div 105.45\% = \\
 & \$943,605 \div 1.0545 = \\
 & \$894,836
 \end{aligned}$$

=====

Indirect Cost Dollar Amount =
 $\$894,836 \times 5.45\% = \text{Indirect Cost Dollar Amount}$
 $\$894,836 \times .0545 = \text{Indirect Cost Dollar Amount}$
 $\$ 48,769 = \text{Indirect Cost Dollar Amount}$

NOTE: The above example shows how to calculate the maximum amount of indirect costs that could be claimed against a grant; however, the amount of indirect costs actually paid for a fixed grant will depend on the actual amount of direct costs actually incurred for the grant. In no case can the amount of actual direct costs plus calculated indirect costs plus capital outlay costs exceed the total amount of the fixed grant award.

GUIDE FOR RESTRICTED/UNRESTRICTED CONVERSION

SDP’s Fiscal Year (FY) 2016 restricted rate is converted to an unrestricted rate using the guidance below. This methodology was provided to PDE in May, 2012. The SDP has received an unrestricted indirect cost rate for FY15. That rate is expected to be recalculated and extended by PDE in future years.

Description	Allocation
Instruction	These expenditures are direct costs.*
Support Services	These expenditures are direct costs.*
Attendance and Social Work Services	These expenditures are direct costs.*
Health Services	These expenditures are direct costs.*
Other Support Services-Students-Related (Speech/OT/PT and Extraordinary Services)	These expenditures are direct costs.*
Other Support Services-Students-Extra.	These expenditures are direct costs.*
Other Support Services-Students-Regular (Guidance Services)	These expenditures are direct costs.*
Other Support Services-Students-Special (Child Study Teams)	These expenditures are direct costs.*
Improvement of Instructional Services/ Instructional Staff	These expenditures are direct costs.*
Educational Media Services/Sch. Library	These expenditures are direct costs.*
Instructional Staff Training Services	These expenditures are direct costs.*
Support Services-General Administration	This function includes costs associated with board of education services and executive administration services, including school election services.

For Restricted Rates:

EDGAR *disallows* expenditures for:

1. The governing body (members of the board of education) of the grantee;
2. Compensation of the chief executive officer (Superintendent of a school district) of the grantee; and
3. Operation of the immediate offices of these officers.

Accordingly, no portion of the salaries, benefits and other expenditures such as “travel” and “supplies incurred for board members and superintendent” may be included in the indirect cost pool. For the purpose of calculating the rate, these costs must be treated as disallowed costs in their entirety and included in the base (in the denominator). Accordingly this function should mainly consist of direct and disallowed costs with the exception of the following expenditures which are considered **indirect** costs:

- a) Auditor’s fees.
- b) District wide cost of Communication/Telephone except incurred for the board members, superintendent and his/her office.

“Judgments against the School District” are **excluded** from the calculation.

For Unrestricted Rates:

All costs **except** for the governing body (members of the board of education) of the grantee and operation of the immediate offices of the board are **indirect**.

The board of education and the operation of the immediate office must be treated as disallowed costs in their entirety and included in the base (in the denominator).

“Judgments against the School District” are **excluded** from the calculation.

Support-Services-School Administration

These expenditures are **direct** costs.*

Central Services

For **Restricted** and **Unrestricted** rates:

The following expenditures under this function are considered **indirect** costs:

- (a) Salaries
- (b) Purchased Technical services
- (c) Purchased Professional Services, less unallowable public relation costs
- (d) Miscellaneous Purchased Services
- (e) Supplies and Materials
- (f) Miscellaneous Expenditures

The following expenditures under this function are considered **direct/disallowed** costs:

- (a) Any unallowable public relations costs included in Purchased Professional Services
- (b) Sale/Leaseback Payments

Following expenditures under this function are considered **excluded** costs:

- A. Interest on current loans
- B. Interest on Bond Anticipation Notes

See below for treatment of **Interest on Lease Purchase Agreements**

Administrative Information Technology

For **Restricted** and **Unrestricted** Rates:

These expenditures are **indirect** costs.

Operation and Maintenance of Plant

For **Restricted** Rates:*

These expenditures are **direct** costs.

Services (Including custodial, grounds, and security)

For **Unrestricted** Rates:*

These expenditures are **indirect** costs.

Student Transportation Services

These expenditures are **direct** costs.*

Other Support Services

For **Restricted** and **Unrestricted** rates:

These expenditures are **indirect** costs:

Fringe Benefit Allocations

For **Restricted** Rates:

All fringe benefit objects for the “General Administration” function are **direct/disallowed** costs.

All fringe benefit objects for “Central Services” function are considered indirect costs with the exception of Early Retirement Incentive Plan payments which are disallowed costs.

All fringe benefit objects for the “Administrative Information Technology” function are considered indirect costs with the exception of Early Retirement Incentive Plan payments which are disallowed costs.

All fringe benefit objects for the “Other Support Services” function are indirect costs with the exception of Early Retirement Incentive Plan payments which are disallowed costs.

Fringe benefit objects for all other functions are direct/disallowed costs.

Any unused sick time for all other functions are indirect costs.

Fringe benefit objects for all other functions are indirect.

For Unrestricted Rates:

Same as **Restricted** but the “Support Services – General Administration” function fringe benefits are **indirect** with the exception of Early Retirement Incentive Plan payments which are disallowed costs.

Food Services

Supplies and labor expenditures are direct costs. Food and Capital items are excluded.

“On-behalf” “Teacher’s Pension and Annuity Fund” Pension/Social Security

These expenditures are **excluded** costs.

Community Services Programs/Operations

These expenditures are **direct** costs.

Capital Outlay

These expenditures are **excluded** costs.

Special Schools

These expenditures are **direct** costs.

Transfer to Charter Schools

These expenditures are **excluded** costs.

Interest

For Restricted and Unrestricted rates:

The sum of Interest on Lease Purchase Agreements in the Debt Service Fund, **less** any interest earned in the Capital Projects Fund is **direct/ disallowed** (the net). If the interest earned is greater than the interest expense then these costs are **excluded**.

GLOSSARY OF FUNCTIONS

Functions/Description

Instruction: Instruction includes the activities involving the interaction between teachers and students. Teaching may be provided for students in a school classroom, in another location such as a home or hospital, and in other learning situations such as those involving co-curricular activities. It may also be provided through some other approved medium such as television, radio, computer, Internet, multimedia telephone, and correspondence, that is delivered inside or outside the classroom, or in other teacher-student settings.

Included here are the activities of aides or classroom assistants of any type (clerks, graders, teaching machines, etc.) who assist in the instructional process.

Support Services: Support services provide administrative, technical (such as guidance and health), and logistical support to facilitate and enhance instruction. These services exist as adjuncts for fulfilling the objectives of instruction, community services, and enterprise programs, rather than as entities within themselves.

Attendance & Social Work Services: Includes activities designed to improve student attendance at school and which attempt to prevent or solve student problems.

Health Services: Includes physical and mental health services that are not direct instructional.

Speech/Occupational Therapy/Physical Therapy and Related Services: Costs of related services as a result of individualized education programs.

Other Support Services- Students-Extraordinary: Includes services other than related services provided to students as a result of individualized education programs that are unique to individual students such as one-to one aids.

Guidance Services: Includes guidance services and any other activities, supplemental to the teaching process, that are designed to assess and improve the well-being of students.

Child Study Teams: Includes services provided by child study team members, including psychologist, social workers, learning consultants, and speech correctionists, and other services related to the classification of students and the development of individualized education programs

Improvement of Instruction Services: Includes activities primarily for assisting instructional staff in planning, developing, and evaluating the process of providing learning experiences for students.

Educational Media Services/School Library: Includes activities concerned with the use of all teaching and learning resources, including hardware and content materials, including school library services, audiovisual services, educational television services, and computer assisted instruction services.

Instructional Staff Training Services: Includes activities that contribute to the professional or occupational growth and competence of members of the instructional staff during the time of their service.

Support Services- General Administration: Activities concerned with establishing and administering policy for operating the LEA. These include board of education services and executive administration services.

Support Services- School Administration: Includes activities concerned with overall administrative responsibility for a school. They include the activities performed by the principal, assistant principals, and other assistants while they supervise operations of the school, evaluate school staff members, supervise and maintain the records of the school and coordinate school instructional activities with those of the LEA. Also included here would be the activities of department directors such as guidance, athletic, and special education.

Central Services: Includes activities that support other administrative and instructional functions including fiscal services, human resources, strategic planning, purchasing, warehousing and distribution services, and printing services including public information services. The chief business official expenditures are included here.

Administrative Information Technology: Includes activities concerned with supporting the school district's information technology systems, including supporting administrative networks, maintaining administrative information systems, and processing data for administrative and managerial purposes.

Operation & Maintenance of Plant Services: Includes activities concerned with keeping the physical plant open, comfortable, and safe for use, and keeping the grounds, buildings, and equipment in effective working condition. Includes security, custodial, and grounds.

Student Transportation Services: Includes activities concerned with conveying students between home and school and from school to other school activities as provided by state and federal law.

Fringe Benefits: Unallocated: Unallocated fringe benefits are allocated to functions.

Food Services: Includes the board's share of expenditures for the food service program.

Community Services Programs: Activities concerned with providing community services to students, staff, or other community participants. Also includes maintenance and management of public playgrounds and recreation places controlled by the board of education.

Capital Outlay: Is used to record capital items that are funded by general fund revenues. Includes increases in the capital reserve account, equipment purchases, and facilities acquisition and construction services.

Special Schools: Is used to report the costs of special schools funded by current resources other than state and federal grants. The entire cost of adult school programs, including community schools, is recorded here.

Procedure Steps

The procedures below outline the steps in acquiring and utilizing a Restricted and Unrestricted Indirect Cost Rate.

RESPONSIBLE POSITION	Step	ACTION TAKEN
Grant Accounting Unit (GAU)	1	<p>The Indirect Cost and Eliminations Schedule must be completed in the Annual Financial Report (AFR) to be used with federal programs. AFR's are due to the Commonwealth of Pennsylvania Comptroller (CPC) by September 30th with an automatic extension to October 31st. Actual expenditures from the second fiscal year preceding the fiscal year for which the application is applicable are used to calculate the indirect cost rate</p> <p>At the same time, provide the estimated budget for the following year to the CPC using the prescribed methodology and format. Based on the information received, the CPC will calculate the District's restricted and unrestricted indirect cost rate.</p>
CPC	2	Calculate the Restricted and Unrestricted Indirect Rates (estimated) for the District's upcoming fiscal year. Adjust the rate to compensate for a "true-up" of the estimated rate of the prior year and what the rate would have been using actual expenditure data provided by the District.
GAU	3	Notify relevant personnel of the Restricted and Unrestricted Indirect Cost Rates determined by the CPC for the upcoming year.
Grant Fiscal Services (GFS)	4	<p>Principal Financial Analyst maintains and updates in October a yearly list of grants subject to the Restricted and Unrestricted Indirect Rate.</p> <p>GFS Grant Budget Analysts (GBAs) apply the indirect cost rate to grants eligible to receive a Restricted/Unrestricted Indirect Rate charge when developing grant budgets in pursuit of grant awards, and adjust current grant budgets with the review and approval of Grant Program Managers (GPMs) for existing awards, if necessary (see Budget Amendments procedure).</p>
GBA	5	<p>For grants that have a been determined to receive an indirect cost charge, follow the following procedure and schedule:</p> <p><i>Restricted Indirect Cost Rate:</i></p> <p>Apply the Restricted Indirect Cost Rate quarterly to actual expenditures and Journal Voucher the grant revenue by debiting the grant revenue code and crediting the standard Operating revenue ABC Code (1100-079-8880-5221-90CR). Execute a final calculation and Journal Voucher during the SDP's financial close period (post July 1st of each year). See the Journal Voucher Management policy.</p> <p>For grants that do not have a material amount of indirect cost charge,</p>
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		make the calculation and execute the journal voucher once during the District’s yearly financial close period.
RESPONSIBLE POSITION	Step	ACTION TAKEN
GBA	5	<p><i>Unrestricted Indirect Cost Rate:</i></p> <p>Apply the Unrestricted Indirect Cost Rate quarterly to actual expenditures and Journal Voucher the grant revenue by debiting the grant revenue code and crediting the standard Indirect Holding account ABC Code (TBD). Execute a final calculation and Journal Voucher during the SDP’s financial close period (post July 1st of each year). See the <i>Journal Voucher Management</i> policy.</p> <p>For grants that do not have a material amount of indirect cost charge, make the calculation and execute the journal voucher once during the District’s yearly financial close period.</p>
GFS	6	Review and approve Indirect Charge JVs per the JV management Policy.
GAU		Test for accuracy the Unrestricted and Unrestricted Indirect Cost bookings during the yearly Financial Close process.

Contacts

The following people are primary contacts regarding this procedure:

- [*Grant Fiscal Services*](#)
- [*Grant Accounting Unit*](#)

Frequently Asked Questions

Related Information

- [*Budget Amendments Policy*](#)
- [*Journal Voucher Management Policy*](#)

History

- Amended to include the provision that indirect costs can only be applied to the first \$25,000 of subgrantee awards.
- Amended on 2/24/2015 to update UGG references, indicate the award of an unrestricted indirect cost rate, and make other technical changes.

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