

NATURE OF INDIRECT COST

Indirect costs are those costs incurred for a common or joint purpose benefiting more than one cost objective and not readily assignable to the cost objectives specifically benefited. The cost of operating and maintaining buildings and equipment, depreciation or use charge, and administrative salaries are examples of expenditures usually considered indirect. In theory, all such costs should be distributed directly. However, it is more practical to use an indirect cost rate.

The indirect cost rate is the ratio expressed as a percentage of the total indirect cost of an agency to a direct cost base.

AUTHORITY FOR RECOVERY OF INDIRECT COST

Federal publication OMB Circular A-87, May 4, 1995, establishes principles and standards designed to provide that Federal grants and contracts bear their fair share of allowable indirect costs except where restricted or prohibited by law. These principles are used as the basis for the development of indirect cost allocation plans.

RESTRICTION TO RECOVERY OF INDIRECT COST

Certain federal education grants have a statutory requirement prohibiting the use of federal funds to supplant non-Federal funds. Supplant implies replacement of present level State and local funding with new Federal funding. Reimbursement of indirect costs is subject to the availability of funds and any

statutory or administrative restrictions. These grants require the use of a restricted indirect cost rate.

Title I, Title VI, and IDEA are such examples of Federal grants that require the use of a restricted indirect cost rate. All direct costs must be paid before any indirect costs may be recovered from federal funds.

PROCEDURES FOR RECOVERY OF INDIRECT COST

OMB Circular A-87 establishes the policy that one Federal agency is responsible for the review, negotiation and approval of indirect cost rate proposals prepared by State and local governments. The United States Department of Education is listed as the official overseer for the state of Tennessee and applicable indirect cost proposals.

Tennessee Department of Education is responsible for developing an indirect cost plan for local use. The United States Department of Education must approve the plan application before the plan applications can be delivered. Once the Local Education Agency completes the plan application, the Tennessee Department of Education then approves the indirect cost rate plan. The LEA is then eligible to claim reimbursement for indirect costs.

Should the Local Education Agency decide that no indirect costs will be claimed on federal grants, then the LEA must file a DECLARATION OF NEGATIVE INTENT TO DEVELOP AN INDIRECT COST PROPOSAL in lieu of an indirect cost rate application with the Tennessee Department of Education.

GUIDELINES AND STANDARDS FOR INDIRECT COST PROCEDURES

Several guidelines exist for the determination of an allowable cost under Federal grants. The following criteria denote these standards for such costs.

An allowable cost under Federal grants must be:

1. Reasonable and necessary for proper and efficient administration of the Federal grant.
2. Authorized or not prohibited under State or local laws or regulations.
3. Consistent with policies, regulations, and procedures that apply to both Federal grants and other LEA activities.
4. Accorded consistent treatment. No cost may be assigned to a Federal grant as a direct cost if any similar cost incurred for the same purpose has been allocated to the Federal grant as an indirect cost.
5. Determined in accordance with generally accepted accounting principles.
6. Exclusively charged to one Federal grant.
7. Net of all applicable credits.
8. Adequately documented.

In Tennessee, all LEAs are not organized in the same manner. Therefore, accounting costs are not always treated the same. Food service is one example. In some LEAs, these costs may be handled at the administrative level and included with other accounting costs. In other LEAs, accounting costs may be

included in food service operational costs and thus become a direct cost to the food service program.

Another example is the Supervisor of Instruction. The salary and related costs may be recorded as Supervisor, when actually, this individual may serve as an Assistant Superintendent. The Supervisor of Instruction is considered an indirect cost to the extent that indirect activities are being performed. These activities must be documented and their costs prorated per 34 CFR 76.565 (b) and OMB Circular A-87 Attachment B (11) (h) (4). The Assistant Superintendent is indirect for a non-restricted rate plan and direct for a restricted rate plan.

COMPUTATION BASE FOR INDIRECT COST

Expenditures for the second preceding fiscal year are used when completing the indirect cost application. The 1996-97 indirect cost plan applications filed during fiscal year 1995-96 used expenditures from the fiscal year 1994-95 as computation base. The 1997-98 indirect cost plan applications will be filed during fiscal year 1996-97 using the 1995-96 expenditures as the computation base.

The application forms are designed for dollar amounts of expenditures to be entered into the following categories: Excluded Cost, Indirect Cost, Direct Cost and Total Cost. The amounts entered in the applicable columns must balance with the Annual Financial Report.

In those local education agencies with non-centralized food service operations, the food service expenditures are summarized from the monthly

USDA claims. These summarized expenditures are entered on the plan application after the expenditures from the Annual Financial Report are balanced and totaled. Centralized food service operations report their expenditures on the Annual Financial Report.

The indirect cost application plans are cross referenced to the applicable Annual Financial Report before the Tennessee Department of Education approves the rates for the Local Education Agency.

FIXED RATE WITH CARRY-FORWARD ADJUSTMENT

The indirect cost plan application as developed by the Tennessee Department of Education has been approved by the United States Department of Education as a fixed rate with a carry-forward provision plan. A fixed rate with carry-forward provision has characteristics of both a provisional rate and a predetermined rate. A provisional rate is a temporary rate subject to adjustment while a predetermined rate is a permanent rate not subject to adjustment.

An indirect cost 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 year immediately following since the indirect cost rate for that fiscal year has already been determined. Therefore, the adjustment should be carried forward to the second fiscal year following the adjusted year.

EXAMPLE:

Adjustments to the 1995-96 indirect cost rate would be carried forward to the 1997-98 rate. In this example, calculations for the adjustment would be made based on a comparison of the estimated indirect cost for 1995-96 with the actual indirect cost for 1995-96. The estimated indirect cost is the result of multiplying the 1995-96 indirect cost rate by the actual direct cost for 1995-96. Once the difference between the estimated indirect cost and the actual indirect cost is determined, this difference is added to or subtracted from the actual indirect cost and this total is then used to calculate the indirect cost rate to be used for 1997-98. Adequate space is provided on the indirect cost plan application for these calculations.

DOCUMENTATION OF INDIRECT COST

Records and supporting documentation are subject to audit and must be maintained for a period of three (3) years for that purpose. If audit findings are noted, records must be maintained until findings are appropriately resolved.

COMPLETING NON-RESTRICTED INDIRECT COST PLAN APPLICATION

The Non-Restricted rate is to be used for all non-restrictive federal programs including Food Service.

The food service costs will be reflected in the Excluded or the Non-Restricted Direct columns. The column totals will then be used to determine the Non-Restricted rate as usual.

The accounts are to be reflected in the following columns as follows:

Excluded Cost

All Instructional Equipment	71000-701 through 790
All Other Adult Education	71600*
All Support Services Equipment	72000-701 through 790
All Other Adult Program	72260*
Judgements	72310-505
Trustee Commission	72310-510
All Non-Instructional Equipment	73000-701 through 790
Payments to Schools for Breakfast	73100-342
Payments to Schools for Lunch	73100-343
Payments to Schools for Other	73100-344
Payments to Schools for Other USDA	73100-345
All Other Community Service	73300*
Food Supplies	73100-422
All Capital Outlay	76100
All Education Debt Service	81300
All Capital Projects	91300
All Operating Transfers	99100
All Residual Equity Transfers	99200

The accounts with asterisks may be excluded if the accounting function is not performed in the Local Education Agency.

Indirect Cost

Attendance Supervisor	72110-105
Related Benefits	72110
Regular Instruction Supervisor	72210-105/117/127*
Materials Supervisor	72210-132/117/127*
Related Benefits	72210*
Audit Services	72310-305
Dues and Memberships	72310-320
Legal Services	72310-331
Travel	72310-355
Other Contracted Services	72310-399
Other Supplies and Materials	72310-499
Workers' Compensation	72310-513*

Superintendent	72320-101
Assistant Superintendent	72320-103
All Other Superintendent Office	72320
All Other Fiscal Services	72510
All Other Operation of Plant	72610
All Other Maintenance of Plant	72620
Central and Other All Other	72810

Any expenditure for equipment in the previously mentioned categories will not be included in this column since all equipment is excluded. The accounts with asterisks may be allowed as indirect to the extent that indirect activities are being performed. These costs must be documented and prorated per 34 CFR 76.565 (b) and OMB Circular A-87, Attachment B (11)(h)(4).

Direct Cost

The remaining costs from the Annual Financial Report after the preceding distributions are considered direct costs. Several exceptions may exist. The following exceptions may be direct costs if the accounting function is performed by the Local Education Agency.

All Other Adult Education Program	71600
All Other Adult Program	72260
All Other Community Service	73300

DEPRECIATION ON BUILDINGS AND EQUIPMENT

Depreciation or use charge on fixed assets owned and operated by the LEA is an allowable cost for the non-restricted indirect cost plan application. All food service equipment except that purchased with federal funds may be depreciated according to USDA Guidelines 796-1, Revision 2. The depreciation amount is considered a non-restricted indirect cost.

NON RESTRICTED
INDIRECT COST PLAN
FOR FY 1998

System _____

Description	Account Numbers	Excluded Cost	Non-Restricted Indirect Cost	Non-Restricted Direct Cost	Total
All Instructional Equipment	71000-700's	_____			_____
All Other Adult Education Program (note 1)	71600	_____			_____
All Other Instruction	71000	_____			_____
All Support Services Equipment	72000-700's	_____			_____
Attendance Supervisor	72110-105		_____		_____
Related Benefits (note 2)	72110		_____		_____
All Other Attendance	72110			_____	_____
All Other Health Services	72120			_____	_____
All Other Student Support	72130			_____	_____
Regular Instr. Supv. (note 3)	72210-105/117/127		_____		_____
Regular Instr. Matls. Supv. (note 3)	72210-132/117/127		_____		_____
Related Benefits (note 3)	72210		_____		_____
All Other Regular Instruction	72210			_____	_____
All Other Special Education	72220			_____	_____
All Other Vocational Education	72230			_____	_____
All Other Adult Program (note 1)	72260	_____			_____
All Other	72290			_____	_____
Audit Services	72310-305		_____		_____
Dues and Memberships	72310-320		_____		_____
Legal Services	72310-331		_____		_____
Travel	72310-355		_____		_____
Other Contracted Services	72310-399		_____		_____
Other Supplies and Materials	72310-499		_____		_____
Judgements	72310-505	_____			_____
Trustee Commission	72310-510	_____			_____
Workers' Compensation (note 3)	72310-513		_____		_____
All Other Board of Education	72310		_____		_____
Superintendent	72320-101		_____		_____
Assistant Superintendent	72320-103		_____		_____
Career Ladder	72320-117		_____		_____
All Other Superintendent Office	72320		_____		_____

1 Excluded when accounting function not performed in the school system.

2 Benefits for salaries in the Indirect Cost Column for that Function Account.

3 Will be allowed as indirect to the extent that indirect activities are being performed. Must be documented and prorated per 34CFR 76.565(b) and OMB Circular A-87 Attachment B(11)(h)(4).

**NON RESTRICTED
INDIRECT COST PLAN
FOR FY 1998**

Description	Account Numbers	Excluded Cost	Non-Restricted Indirect Cost	Non-Restricted Direct Cost	Total
All Other Office of Principal	72410				
All Other Fiscal Services	72510				
All Other Operation of Plant	72610				
All Other Maintenance of Plant	72620				
All Other Transportation	72710				
All Other Central and Other	72810				
All Non-Instructional Equipment	73000-700's				
Food Service Payment to School	73100-342				
Food Service Payment to School	73100-343				
Food Service Payment to School	73100-344				
Food Service Payment to School	73100-345				
Food Service Food Supplies	73100-422				
All Other Food Service	73100				
All Other Community Service (note 1)	73300				
Capital Outlay	76100				
Education Debt Service	81300				
Capital Projects	91300				
Operating Transfers	99100				
Residual Equity Transfers	99200				
TOTAL FINANCIAL REPORT		=====	=====	=====	=====
ADD: (note 2)					
Expenditures from USDA Claims Form					
Food					
Labor					
Supplies and Other Expenses					
Equipment					
Total USDA Claims Expenditures		=====		=====	=====
DEPRECIATION ON BUILDINGS & EQUIPMENT					
GRAND TOTAL (All Sources)		=====	=====	=====	=====

1 Excluded when accounting function not performed in the school system.
2 Systems that report centralized food service expenditures on the Annual Financial Report do not complete this section.

CARRY FORWARD ADJUSTMENT COMPUTATION

Actual Non-Restricted Indirect Cost Grand Total (Page 2)	\$ _____
+/- Carry Forward Adjustment (note 1)	\$ _____
Actual Adjusted Non-Restricted Indirect Cost	\$ _____
Subtract Computed Indirect Cost	
$\frac{\text{1996 Rate}}{\text{1996 Direct Cost}} \times$	\$ _____
Under/(Over) Recovery (note 2)	\$ _____ =====

NON-RESTRICTED INDIRECT COST RATE

$$\frac{\text{Actual Adjusted Non-Restricted Indirect Cost} + \text{Under(Over) Recovery}}{\text{Direct Cost}} = \frac{\text{_____}}{\text{_____}} \% \text{ Non-Restricted Rate*}$$

* Round to two decimals.

1 Carry Forward Adjustment is the under/(over) recovery amount used in the rate calculation developed for the second previous fiscal year.

2 This amount is used in the current year calculation as the Under/(Over) Recovery and in the second subsequent fiscal year as the Carry Forward Adjustment.

COMPLETING RESTRICTED INDIRECT COST PLAN APPLICATION

This plan is developed to establish a Restricted rate for indirect cost for those federal programs with restrictive language. The following entries are to change the completed plan for Non-Restricted Indirect Cost into Restricted Indirect Cost with a few adjustments.

1). Carry forward all Financial Report totals from the Non-Restricted Indirect Cost Plan, page 2.

2). The following accounts are to be adjusted from the Indirect Cost column to the Direct Cost column.

- Superintendent
- Assistant Superintendent
- All Other Superintendent Office
- All Other Operation of Plant
- All Other Maintenance of Plant

**RESTRICTED
INDIRECT COST PLAN
FOR FY 1998**

<u>Description</u>	<u>Account Numbers</u>	<u>Excluded Cost</u>	<u>Indirect Cost</u>	<u>Direct Cost</u>	<u>Total</u>
Total Financial Report from Page 2					
Superintendent	72320-101		()		
Assistant Superintendent	72320-103		()		
All Other Office of Superintendent	72320		()		
All Other Operation of Plant	72610		()		
All Other Maintenance of Plant	72620		()		
TOTAL FINANCIAL REPORT		=====	=====	=====	=====

CARRY FORWARD ADJUSTMENT COMPUTATION:

Actual Restricted Indirect Cost Total (see above)	\$ _____
+/- Carry Forward Adjustment (note 1)	\$ _____
Actual Adjusted Restricted Indirect Cost	\$ _____
Subtract Computed Indirect Cost	
x	\$ _____
1996 Rate 1996 Direct Cost	
Under/(Over) Recovery (note 2)	\$ _____
	=====

$$\frac{\text{Actual Adjusted Restricted Indirect Cost} + \text{Under/(Over) Recovery}}{\text{Direct Cost}} = \frac{\text{Under/(Over) Recovery}}{\text{Restricted Rate}^*} \%$$

* Round to two decimal places.

1 Carry Forward Adjustment is the under/(over) recovery amount used in the rate calculation developed for the second previous fiscal year.

2 This amount is used in the current year calculation as the Under/(Over) Recovery and in the second subsequent fiscal year as the Carry Forward Adjustment.

CERTIFICATION

I certify as the responsible official of _____ School System that the information contained herein has been prepared in accordance with instructions issued by the Tennessee Department of Education and is correct to the best of my knowledge and belief. No costs other than those incurred have been included in the indirect cost rate application. The same costs that have been treated as indirect costs have not been and will not be claimed as direct costs, and similar types of costs have been accorded consistent treatment. All expenditures detailed on the application form are actual costs and supporting documents have been maintained for audit availability. Full responsibility is hereby assumed by the _____ School System for settlement of any audit questions arising as a result of the information herein submitted.

The Non-Restricted rate is to be used for all Food Service purposes. An Indirect Cost Rate of:

_____ % Non-Restricted Programs

_____ % Restricted Programs

is proposed for use during fiscal year ending June 30, 1998.

Superintendent, LEA

Date

DECLARATION OF NEGATIVE INTENT
TO DEVELOP AN INDIRECT COST PROPOSAL

I hereby declare as the responsible official of _____ School System that we do not intend to develop an indirect cost proposal for the fiscal year ending June 30, 1998.

Superintendent, LEA

Date

ACCEPTED AND APPROVED BY TENNESSEE DEPARTMENT OF EDUCATION

Director, Local School Finance

Date

APPENDIX

DEFINITIONS

DEPRECIATION OR USE CHARGE: An allowable cost related to depletion of fixed assets owned and used by the local education agency. The

charges must not exceed 2% on the actual cost of buildings and improvements and 6 2/3% on actual cost of equipment. Food service equipment may be depreciated at the rate of 8 1/3%.

DIRECT COST: Allowable costs which can be identified and charged directly to a specific activity or cost objective.

EXCLUDED COST: Costs which are not to be used in calculation of indirect cost rates.

INDIRECT COST: Those costs incurred for a common or joint purpose benefiting more than one cost objective and not readily assignable to the cost objectives specifically benefiting.

INDIRECT COST RATE: The ratio expressed as a percentage between the total indirect cost and the direct cost base.

NON-RESTRICTED INDIRECT COST RATE: The indirect cost rate which may be used in those federal programs in which the authorizing legislation does not contain any restrictive language.

RESTRICTED INDIRECT COST RATE: The indirect cost rate which may be used in federal programs in which the authorizing legislation contains the language that the program is “to supplement but not to supplant.”

REFERENCES

34 CFR 76.565 (b) states the following.

General management costs include the costs of performing a service function. such as accounting, payroll preparation, or personnel

management, that is normally at the grantee's level even if the function is physically located elsewhere for convenience or better management.

OMB Circular A-87 Attachment B (11) (h) (4) states the following.

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5).

OMB Circular A-87 Attachment B (11) (h) (5) states the following.

Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
- (d) They must be signed by the employee.