

ALABAMA STATE DEPARTMENT OF
EDUCATION

Fiscal Year 2022
Indirect Cost Allocation Proposals For
Local Education Agencies

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Local Education Agencies

Requests for Authorized Indirect Cost Rate

(Fiscal Year 2022)

General Information

Applications for grants usually involve a request for reimbursement of both direct and indirect costs. OMB Title 2 CFR Part 200, Subpart E (relocation of OMB Circular A-87) contains provisions for determining indirect cost rates for grantees and sub grantees of federal grants.

Local education agencies (LEAs) are not required to develop an indirect cost proposal; however, if they do not, they will not be allowed to recover any indirect costs related to federal grants and contracts. To recover any indirect costs for the administration of federal grants, an LEA must have an approved indirect cost rate.

Indirect Cost Proposals

An approved indirect cost rate is a simplified means for determining a fair share of indirect costs for federal grants, which is acceptable to federal grantor agencies. In theory, all such costs can be charged directly. However, using an indirect cost rate is often more efficient and practical. The Alabama State Department of Education (SDE) has, in cooperation with the U.S. Department of Education, developed an indirect cost plan to be used by LEAs in Alabama. The SDE has been delegated the authority by the U.S. Department of Education to review indirect cost proposals and to approve indirect cost rates for LEAs (Education Department General Administrative Regulations (EDGAR) 34 CFR 75.561 (b)).

An indirect cost rate is a means of determining the percentage of allowable general administrative expense that each federal grant should bear. Generally, an indirect cost rate is the ratio of total indirect costs to total direct costs, based on the LEA's actual expenditures, exclusive of any extraordinary or distorting expenditures such as capital outlay, debt service, and major subcontracts. Expenditures for the second preceding fiscal year are to be used when completing the Indirect Cost Proposals for a given fiscal year. For example, expenditures for Fiscal Year 2020 will be used to complete the Indirect Cost Proposals for Fiscal Year 2022. The second preceding year is used because the actual costs for the immediate preceding year will not be available at the time the LEA needs to calculate the rate for the following year.

OMB Title 2 CFR Part 200, Subpart E requires that all expenditures of an LEA be included in the preparation of an indirect cost plan. These costs are derived from the books and records of the General Fund, the special revenue funds, and any other applicable funds for the administration of the system.

The sources of information utilized to determine indirect cost rates are the LEA's official audited General Purpose Financial Statement and the detail 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 financial report must have been made, and records supporting them must be maintained, by the LEA.

Alabama LEAs use the fixed with carry-forward rate for indirect costs. The 2022 rates will be reduced or increased for under/over-application of indirect costs in the 2020 year. The SDE submits the proposed methodology to be used by LEAs when applying for rates to the U.S. Department of Education for its approval. LEAs then submit indirect cost proposals annually to the SDE for approval of new rates.

Generally, records and documentation supporting the indirect cost allocation plan must be retained for a period of five 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.

Classification of Expenditures and Audit

The classification of expenditures will conform to the function, program, and object codes used in the Alabama LEA Accounting Manual. This manual can be found on the Alabama State Department of Education Web site (www.alsde.edu) under Departments, LEA Accounting, Accounting Manual.

Detailed records are required to support any indirect costs attributed to function **3XXX – Operation & Maintenance Services, 61XX – Board of Education Services, and 62XX - Executive Administrative Services**. These records should contain a detailed analysis of costs classified as indirect and should include a justification or explanation as well as other pertinent information.

Schedules or other records that document the reporting of all expenditures recorded as excluded costs should be maintained.

Types of Plans and Rates: Restricted, Unrestricted, and Child Nutrition Program

Restricted

Restricted rates apply to grants that are made under federal programs with supplement and in no case supplant requirements. This means that the funds are for support in addition to state and local funding. Such amounts are intended to supplement, but in no way replace, state and local funds.

Restricted grants include as indirect costs only administrative and fixed charges as defined below.

Definitions

1. **Indirect Costs** - Those costs of a general nature that 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.

As prescribed by OMB Title 2 CFR Part 200, Subpart E, 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.

Administrative indirect costs consist of the salaries and expenses for people who are engaged in administrative activities from which the entire LEA benefits. **Those activities that are limited to one school, subject, or phase of operation are not indirect costs.**

Central Service Agency costs as allocated in a cost allocation plan are considered indirect costs.

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

As stated in 34CFR 76.565, "(a) As used in 76.564, *general management costs* means the costs of activities that are for the direction and control of the grantee's affairs that are organization-wide. An activity is not organization-wide if it is limited to one activity, one component of the grantee, one subject, one phase of operations, or other single responsibility. (b) 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. The term also includes certain occupancy and space maintenance costs as determined under 34CFR 76.568."

In theory, all such costs can be charged directly. However, practical limitation and consideration of efficiency in accounting preclude such an approach. Salaries and

expenses related to the direction and supervision of such functions as instruction, guidance, attendance, transportation, community services, and student services are not indirect costs. The cost of these functions is considered as direct costs. For example: the business manager, accounting manager, and accounting section are included as administrative indirect costs but the director of transportation would be classified as a direct cost.

34CFR 76.568 Occupancy and space maintenance costs

- a. As used in the calculation of a restricted indirect cost rate, occupancy and space maintenance costs means such costs as:
 - 1) Building costs whether owned or rented;
 - 2) Janitorial services and supplies;
 - 3) Building, grounds and parking lot maintenance;
 - 4) Guard services;
 - 5) Light, heat, and power;
 - 6) Depreciation, use allowances, and amortization; (see below for a definition of depreciation and use allowances from OMB Title 2 CFR Part 200, Subpart E) and
 - 7) All other related space costs.
- b. Occupancy and space maintenance costs associated with organization-wide service functions (accounting, payroll, personnel) may be included as general management costs if a space allocation or use study supports the allocation.
- c. Occupancy and space maintenance costs associated with functions that are not organization-wide must be included with other expenditures in the indirect cost formula. These costs may be charged directly to affected programs only to the extent that statutory supplanting prohibitions are not violated.

Other costs that are general administrative but are unallowable include, but are not limited to, all expenditures for the school board, contributions and donations, bad debts, contingencies, debt services and interest, stipends, capital outlay, and entertainment.

The superintendent, the superintendent's secretary, and expenses related directly to the operation of the superintendent's immediate office, specifically, are not included in restricted indirect costs. An individual principal, a principal's secretary, and the expenses related to the operation of these immediate offices are also not included in restricted indirect cost rates. These costs are disallowed costs for rate computation purposes. **Note that principals are not allowable indirect costs for either unrestricted or restricted rate calculation purposes. The principal's salary is tied to the building. It is not system-wide and is not considered an indirect cost.**

Head of Component as defined in the U.S. Department of Education Cost Allocation Guide for State and Local Governments, September 2009, are treated as a direct cost. The U.S. Department of Education Cost Allocation Guide for State and Local Governments defines component costs as "...organizational units for both indirect and direct functions existing one level below the Chief Executive Officer unit." Also, "The grantee's organizational structure is considered in determining adjustments for components."

Chief School Financial Officer salary, benefits, travel, and other associated costs are treated as a direct cost for restricted rate calculations.

Charges for individuals whose time is divided between system-wide management responsibilities and specific program or administrative activities will be based on Personal Activity Reports prepared at least monthly in compliance with OMB Title 2 CFR Part 200, Subpart E. If the superintendent is part-time, both superintendent-time and non-superintendent-time must be captured by time distribution records. Non-superintendent-time (direct for restricted rate calculation purposes) should be a minimal proportion, not more than 20%.

Fixed charges classified as indirect costs are limited to those amounts that are associated with administrative indirect 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.
- f. All similar costs normally considered being employee fringe benefits.

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

Note that per Office of Management and Budget OMB Title 2 CFR Part 200, Subpart E, payments to separating employees for unused leave are treated as indirect costs when computing the "Unrestricted" indirect cost rate. When computing "Restricted" indirect cost rates, such payments to employees who are indirect for the Unrestricted Rate, but direct for the Restricted Rate, are considered direct cost payments for rate calculation purposes only. Payments to separating employees for unused leave are NOT charged as direct costs to any federal awards.

2. **Direct Costs** - a direct cost is one that is incurred specifically for one activity and can be identified specifically with that activity. These costs may be charged directly to grants, contracts, or to other programs against which costs are finally lodged.
3. **Disallowed Costs** - OMB Title 2 CFR Part 200, Subpart E classified 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. For rate computational purposes, these costs are combined with direct costs.
4. **Excluded Costs** - Certain items of costs are classified in OMB Title 2 CFR Part 200, Subpart E 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, transfer expenditures, internal funds and food service food supplies and equipment. For formula computational purposes, these costs are excluded from the rate computation. Indirect cost

recoveries on federal programs and refunds returned on federal programs are also categorized as excluded costs.

Note: 2 CFR Part 200.33, Equipment, defines equipment as follows:

“Equipment means tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial statement purposes, or \$5,000.”

Unrestricted

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

1. **Indirect Costs** - Expenditure for the office of the superintendent 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.

Child Nutrition Program

Special Child Nutrition Program rates apply to LEAs that have separate meters for their lunchrooms and the utilities are paid directly from Fund Source 51XX – USDA - Food & Nutrition. Expenditures for system-wide utilities are subtracted from the indirect cost pool in calculating this special rate. All other definitions remain the same as for the unrestricted rate.

Limitations on the recovery of indirect costs

Three major limitations affect how much indirect costs may be recovered. These limitations are:

1. The rate negotiated with the SDE is the maximum allowable indirect cost rate. Indirect Cost rates from zero to the maximum rate may be approved for a program or project by the Alabama State Superintendent of Education. Federal law or grant conditions may limit the amount of indirect costs or the indirect cost rate. For example, if the LEA has a restricted rate of 3% and the law allows only a 2% rate of recovery, then the LEA can recover only indirect costs equal to 2% of the direct costs. Grant terms and conditions may also exist on some grants that prohibit any recovery of indirect costs.
2. Recovery of indirect costs on grants is subject to the availability of funds. The total direct costs plus indirect costs cannot exceed the maximum allocation.
3. Indirect costs are recovered only to the extent of direct costs incurred. The indirect cost rate is applied to the direct cost amount expended, not to the grant award.

Period for which rates are applicable

An indirect cost rate certification issued by the SDE is established for a specific state fiscal year. The rate is valid from October 1 through September 30 of the applicable fiscal year of approval. To recover indirect costs, the LEA applies the indirect cost rate in effect for a given fiscal year to the grant expenditures during that fiscal year, including any disbursements made on a project balance that are bought forward.

Application of rate

Once the proposal has been approved by the SDE the LEA may elect to:

1. Apply the approved and applicable rate to all projects.
or
2. Apply the approved and applicable rate only to specific eligible projects.

The rate may be applied at the maximum rate or less than the maximum rate. If the rate applied is less than the maximum rate, then it is not necessary for the reduced rate to be applied uniformly to all projects. However, a system may not average the indirect cost charges to projects; that is, if the approved rate was 6%, charge one project at 3% and another project at 9% for an average of 6%.

In the process, the LEA must be consistent with the development of the rate. For example, costs not included in the development of the rate cannot be included when applying the rate.

Additional information

1. An organizational chart must accompany the proposal and be applicable to the second preceding fiscal year because expenditures for the proposal are taken from that year.
2. Pursuant to Office of Management and Budget OMB Title 2 CFR Part 200, Subpart E, payments to separating employees for unused leave are treated as indirect costs when computing the “Unrestricted” indirect cost rate. When computing “Restricted” indirect cost rates, such payments to employees who are indirect for the Unrestricted Rate, but direct for the Restricted Rate, are considered direct cost payments for rate calculation purposes only. Payments to separating employees for unused leave are NOT charged as direct costs to any federal awards.
3. Prior approval is required if an LEA plans to offer retirement incentives and the costs of these special termination benefits are to be claimed directly or indirectly against Federal Programs. A request for approval will be generated by the SDE on behalf of the LEA to the USDE, Indirect Cost Division upon notification by the LEA to the LEA Accounting Section.
4. Judgments, fines, interest, penalties, capital outlay, indirect cost recovered, purchased food, and food processing supplies should be considered as exclusions, not as indirect, and considered as reconciling items.

Development of the Indirect Cost Proposal

As noted above, the 2022 indirect cost proposals are based on the approved FY 2020 General Purpose Financial Statement and must be traceable to those accounts of record that report these amounts. The total adjusted pool and base amounts must reconcile to the LEA's total expenditures shown on the corresponding Financial Summary (Exhibit F-II-A).

Submitting the Indirect Cost Proposal

The completed application will consist of:

- (1) Original signed certification
- (2) Organizational chart
- (3) FY 2020 Indirect Cost Rate Data – Unrestricted report from the LEA Financial System optional reports.
- (4) Trend Analysis – Unrestricted Unadjusted Indirect
- (5) Trend Analysis – Unrestricted Unadjusted Direct
- (6) Unrestricted / CNP Rate Application Adjustment Worksheet
- (7) Unrestricted Rate – Fixed Rate With Carry Forward Calculation Worksheet
- (8) CNP Rate – Fixed Rate With Carry Forward Calculation Worksheet (if applicable)
- (9) FY 2020 Indirect Cost Rate Data - Restricted report from the LEA Financial System optional reports.
- (10) Trend Analysis – Restricted Unadjusted Indirect
- (11) Trend Analysis – Restricted Unadjusted Direct
- (12) Restricted Rate Application Adjustment Worksheet
- (13) Restricted Rate – Fixed Rate With Carry Forward Calculation Worksheet

Other supporting documentation that would enhance and expedite the approval of the proposal

The completed application should be forwarded to:

Alabama State Department of Education
LEA Accounting
5141 Gordon Persons Building
P.O. Box 302101
Montgomery, AL 36130-2101

INDIRECT COST should be typed in the lower left-hand corner of the envelope.

A copy of the information submitted should be retained by the local education agency.

The 2022 Indirect Cost Proposal application is due March 1, 2021.

Use of Rates

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

The amount available to earn indirect cost is determined by subtracting excluded costs (items of equipment, and flow-through funds). The remaining amount is the net available for both indirect and direct costs. To determine the amount available to be assessed Indirect Costs, the net amount 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 allocation for a Title I 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**

\$943,605 ÷ 105.45%
 \$943,605 ÷ 1.0545
 \$894,836
 =====

Indirect Cost Dollar Amount =

\$894,836 x 5.45% = Indirect Cost Dollar Amount
 \$894,836 x .0545 = Indirect Cost Dollar Amount
 \$ 48,769 = Indirect Cost Dollar Amount

Indirect Cost Matrix

The following matrix classifies expenditures by category and is provided as a guide in preparing indirect cost proposals. The matrix identifies by function and object when expenditures are appropriate for classification in a specific category.

Descriptions of the Function and Object Codes can be found in the LEA Accounting Manual.	<u>Categories</u>		
	Direct/ Disallowed Costs	Indirect Costs	Excluded Costs
GENERAL FUND:			
<u>FUNCTION</u>			
1100 Instruction	Yes	No	No ²
21XX Student Support Services	Yes	No	No ²
22XX Instructional Staff Support	Yes	No	No ²
23XX School Administrative Services	Yes	No	No ²
3XXX Operation and Maintenance Services	Yes	No ³	No ²
62XX Executive Administrative Services	Yes	Yes ¹	No ²
63XX Business Support Services	No	Yes	No ²
64XX System-Wide Support Services	No	Yes	No ²
65XX Central Office Services	No	Yes	No ²
69XX Other General & Central Support Services	No	Yes	No ²
7XXX Capital Outlay – Real Property	No	No	Yes
8XXX Debt Service – Long Term	No	No	Yes
91XX Adult / Continuing Education	Yes	No	No ²
92XX Non-Public School Programs	Yes	No	No ²
93XX Community Services	Yes	No	No ²
97XX Payments Made on Behalf of Other Schools	Yes	No	No ²
98XX Other Expenditures	Yes	No	No ²
99XX Other Fund Uses	No	No	Yes

¹ Detailed documentation should be maintained to explain the classification of expenditures as indirect for these functions.

² All functions may contain excluded costs, i.e. capital outlay. Identify all excluded costs by function and maintain documentation.

³ Allowable for unrestricted rate only.

Guide to the Indirect Cost Applications

The Indirect Cost Application distributes expenditures into excluded costs, unallowed costs, direct costs, and indirect costs. Use the following as a guide for the analysis and allocation of the functions and objects between these cost pools while completing the Indirect Cost Rate Applications. ***Expenditures of the Special Revenue Funds are to be considered as direct, disallowed or excluded costs. Exceptions may occur for those who code local tax revenue in a Special Revenue Fund.***

FUNCTION

1100	Instruction	These expenditures are direct costs.
21XX	Student Support Services	These expenditures are direct costs.
22XX	Instructional Staff Support	These expenditures are direct costs.
23XX	School Administrative Services	These expenditures are direct costs.
3XXX	Operation & Maintenance Services	These expenditures are direct costs for restricted rates and indirect costs for unrestricted rates. For Restricted Rates: Only the occupancy and space maintenance costs of organization wide service functions are indirect (see EDGAR 76.568(b)). For Unrestricted Rates: Occupancy and space maintenance costs are indirect.
41XX	Student Transportation Services	These expenditures are direct costs.
42XX	Food Services	These expenditures are direct costs.
61XX	Board of Education Services	These expenditures are direct costs.
62XX	Executive Administrative Services	For Restricted Rates: If such expenditures as payroll, internal auditing, accounting, budgeting, purchasing, and personnel are recorded in this function, they are indirect costs. All other expenditures are direct costs. For Unrestricted Rates: All of these expenditures are indirect costs.
63XX	Business Support Services	These expenditures are indirect costs.
64XX	System-Wide Support Services	These expenditures are indirect costs.
65XX	Central Office Services	These expenditures are indirect costs.
69XX	Other General & Central Support Services	These expenditures are indirect costs.
7XXX	Capital Outlay – Real Property	These expenditures are excluded costs.
8XXX	Debt Service – Long Term	These expenditures are excluded costs.
91XX	Adult / Continuing Education	These expenditures are direct costs.
92XX	Non-Public School Programs	These expenditures are direct costs.
93XX	Community Services	These expenditures are direct costs.
97XX	Payments Made on Behalf of Other Schools	These expenditures are direct costs.
98XX	Other Expenditures	These expenditures are direct costs.
99XX	Other Fund Uses	These expenditures are excluded costs.

OBJECT

116	Chief School Financial Officer (State Mandated Position)	For Restricted Rates: These expenditures are unallowable costs. For Unrestricted Rates: These expenditures are indirect costs.
324	Architect	These expenditures are excluded costs.
461	Purchased Food	These expenditures are excluded costs.
462	USDA Commodities	These expenditures are excluded costs.
464	Food Processing Supplies	These expenditures are excluded costs.
5XX	Capital Outlay	These expenditures are excluded costs.
61X	Debt Service Short-Term	These expenditures are excluded costs.
627	Doubtful Accounts Expense	These expenditures are excluded costs.
69X	Other Objects	These expenditures are excluded costs.
7XX	Buildings & Land Improvements <\$50,000	These expenditures are excluded costs.
9XX	Other Fund Uses	These expenditures are excluded costs.

FUND SOURCES

1221	Technology Coordinator (State Mandated Position)	For Restricted Rates: These expenditures are unallowable costs. For Unrestricted Rates: These expenditures are indirect costs.
7XXX	Local School Revenue Sources	These expenditures are excluded costs.