SCOPE: County Mental Health/Mental Retardation Administrators
County Commissioners
Mental Health Community Program Managers
Mental Retardation Regional Commissioners

PURPOSE:
To distribute County Indirect Cost Allocation Plan Guidelines for reimbursement from the Department of Public Welfare.

DISCUSSION:
The attached guidelines have been developed to communicate the Department's general policies regarding county indirect costs and cost allocation plans. The Guidelines are effective for fiscal year 1984-85. Revisions will be proposed to regulations and to the appropriate grant agreements, to require adherence to the attached guidelines for the Department to participate in county indirect costs.

The following is a summary of the highlights of the guidelines:

1. Counties must submit a letter to the Department certifying that a Cost Allocation Plan (CAP) has been prepared in accordance with the guidelines and identifying the programs under which they intend to claim reimbursement.

2. Indirect costs must be included in the approved county plan and budget.

3. Indirect costs must be included under the administrative cost center in plans, budgets, and reports.

COMMENTS AND QUESTIONS REGARDING THIS BULLETIN SHOULD BE DIRECTED TO:
Office of Fiscal Management, (717) 787-3760
4. Costs cannot be classified as indirect for Department reimbursement if they can be appropriately classified as direct based on DPW regulations, or if they are unallowable by law or regulations, or if they are claimed as direct or billed in other areas.

5. Counties claiming indirect costs will be required to have an independent audit of the CAP after the first year. Thereafter, audits will be required with each county CAP at least every five years.

Attachment
County Cost Allocation Plan
Guideline for
Claiming Indirect Costs
from
Pennsylvania Department of Public Welfare

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DEPARTMENT OF PUBLIC WELFARE
COST ALLOCATION PLAN GUIDELINE
FOR CONTRACTS AND GRANTS

I. BACKGROUND AND GENERAL INFORMATION

In the past several years, many programs funded by DPW and administered by counties in Pennsylvania have requested that the Department recognize county administrative overhead as a legitimate cost to these programs. Generally, the Department has agreed that such costs are indeed valid and has revised its regulations to allow them to be included for reimbursement under the programs it funds.

Principally, this has affected County MH/MR Agencies, County Children and Youth Agencies, County-administered Title XX Day Care Agencies, and the Adult Services Block Grant.

Generally, the Department's policy has been that costs similar to those allowed as direct costs could be claimed as indirect costs. In addition, the Department had required the submission and approval of an indirect cost allocation plan to serve as both the basis for payment and the documentation of costs. This policy has been made as consistent as possible with Federal regulations concerning cost allocation plans, so that duplication of effort at the County level may be kept to a minimum.

Recent reviews of the written procedure available to both counties and Departmental staff concerning indirect costs and cost allocation plans has indicated that a lack of clarity exists. In an effort to correct this problem, the Department is issuing this document which addresses all aspects of county indirect costs and cost allocation plans. Section II provides a general explanation of the Department's policy. Section III outlines cost allocation principles for determination of indirect costs. Section IV addresses the preparation and documentation for a cost allocation plan. Section V indicates some basic allowable and unallowable costs; however, the subject actual dollar reimbursement must be addressed in accordance with each program's regulations/policies. Lastly, Section VI addresses the Department's review and audit requirements for cost allocation plans.

Appendix A indicates sample cost allocation plan formats provided in federal indirect cost guidelines OASC-10. These can be adapted for Department of Public Welfare needs.

II. Policy Concerning County Cost Allocation Plans

A. Background
The purpose of this section is to:

1. define indirect costs,

2. identify the policy and how it applies to counties; and,

3. outline methods to be used in charging these costs to the Department.

These guidelines are to be used and applied for DFY reimbursement of indirect costs to counties.

B. Indirect Costs

Generally, indirect costs are those incurred for a common or joint purpose and, as such, are not readily assignable to any one specific cost or service category. These costs are for supportive activities which are necessary to maintain the direct effort involved in providing the services reimbursed by the Commonwealth. Such activities include, but are not limited to, general supervision, bookkeeping, data processing, and auditing to the extent that these costs are not directly charged to individual agencies. These costs are sometimes also referred to as "administrative overhead" costs; however, for the sake of clarity, the costs defined above will be termed "indirect" cost throughout this document.

C. Policy

If a county wishes to include indirect costs in any program funded in whole or in part by the Department, an indirect cost allocation plan (CAP) must be prepared which substantiates the amount being claimed. CAP and indirect cost policies are:

1. The county commissioners or designated county authority must certify to the plan's accuracy and appropriateness.

2. The county commissioners or designated county authority must submit a letter with each county program plan and budget to the Department indicating the county's intent to claim indirect costs. The content of the letter must include:

   (a) a statement that the county has prepared the required CAP and the CAP is available for Department review and audit at any time; and

   (b) a list of Commonwealth programs from which the county intends to seek or is receiving indirect cost reimbursement.

3. Indirect costs must be included in the appropriate DFY approved county grant plan and budget; and these costs are to be shown under the appropriate administrative cost center.
4. The amount of indirect cost reimbursement from the Department will be dependent upon each DPW approved county program allocations and/or line item allocation for indirect costs.

5. Except where specifically restricted by law or regulation, indirect costs of a county are allowable if they are necessary for the efficient conduct and performance of the county program to which they are allocated.

6. An activity cannot be classified as indirect for Department reimbursement if it meets any of the following conditions:

   (a) activity can be appropriately classified as direct based on DPW grant regulations;

   (b) activity/indirect costs are specifically restricted/allowable by law or regulation;

   (c) an activity claimed as direct and/or billed in other areas;

   (d) expenses of elected county officials are unallowable.

D. Documentation of All Costs

In order to claim indirect costs, the county must document with a cost allocation plan the cost of general supportive activities provided to each unit or organization. The overall objective of the allocation process is to distribute the indirect costs of the county to its various agencies' cost categories in reasonable proportion to the benefits provided to these agencies. In effect, this policy demands that all such indirect county costs, which are to be charged to a county agency/program, must be specifically identified and have supporting documentation.

E. Methods for Allocating Indirect Costs

Indirect costs shall be allocated on a logical basis to all the agencies receiving some benefit from "shared" support activities. Thus, if a county has 25 various agencies, and all receive some support services, the county's indirect costs shall be allocated among all 25 of these agencies, irrespective of how many of these services are reimbursed by the Department.

The method for charging for support services is at the discretion of the county; such method, however, must be in relation to actual benefits accruing to the agencies to which the costs are charged. Counties should note that when support costs are charged as part of an agency's direct services, such costs may not be claimed for Departmental reimbursement as a separate nonallocated cost (i.e., cost cannot be both direct and indirect).
Distributing indirect costs to the appropriate services will require the development of an allocation methodology. This methodology must logically apportion these costs among all agencies receiving a benefit. The use of a less complicated cost allocation plan which produces the desired results is preferable to the use of a plan which is more complex.

III. COST ALLOCATION PRINCIPLES

This section sets forth principles for determining the allowable indirect costs. These principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of state participation in the financing of a particular contractor/grantee. They are designed to provide that DPW contracts/grants bear their fair share of costs recognized under these principles, except where restricted or prohibited by law.

A. Principles:

The application of these principles is based on the fundamental premises that:

1. Counties are responsible for the efficient and effective administration of various programs through the application of sound management practices.

2. The county assumes the responsibility for seeing that Commonwealth funds have been expended and accounted for, consistent with underlying agreements and program objectives.

3. Each county in recognition of its own unique combination of staff facilities and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration.

B. Application: These principles will be applied to all counties seeking reimbursement for indirect cost from the Department.

C. Definition of Terms

1. Provider means the DPW contractor/grantee, who is responsible for a DPW Contract or Grant.

2. Cost Allocation Plan means the documentation, identifying, accumulating and distributing allowable direct and indirect costs to all consuming levels or agencies within the provider together with the allocation methods used.

3. Cost, as used herein, means cost as determined on a cash, accrual, or other basis acceptable to the Commonwealth as a discharge of the provider's accountability for state funds.

4. Cost Objective means a pool, center, or area established for the accumulation of costs. Such areas include organizational units, functions, objects or items of expense.
5. Services, as used herein, means goods and use of facilities, as well as services.

6. Supporting Services means auxiliary functions necessary to sustain the contract or grant conditions and terms. These services may include procurement, payroll, personnel functions, maintenance and operation of space, data processing, accounting, budgeting, auditing, mail and messenger service, and the like.

D. Cost Guidelines

1. Factors Affecting Allowability of Costs: To be allowable, costs must meet the following general criteria:

(a) Be necessary and reasonable for proper and efficient operation and administration of the contract/grant, be allocable thereto under these guidelines, and except as specifically provided herein, not be expenses of selected officials required to carry out the overall responsibilities of local governments.

(b) Be authorized under laws or regulations.

(c) Conform to any limitations or exclusions set forth in these guidelines, or other governing limitations as to types or amounts of cost items. The only exception to these limitations is that the merit system requirement for reimbursement of personnel costs is not applicable for indirect costs.

(d) Be accorded consistent treatment through application of generally accepted accounting principles appropriate to the circumstances.

(e) Be net of all applicable credits.

2. Allocable Costs

(a) A cost is allocable to a particular cost objective to the extent of benefits received by such objectives.

(b) Any cost allocable to a particular cost objective under the guidelines provided for in this document may not be shifted to other program to overcome fund deficiencies, avoid restrictions imposed by law or agreements, or for other similar reasons.

3. Applicable Credits

(a) Applicable credits refer to those receipts or reduction of expenditure-type transactions which offset or reduce expense items allocable to a particular agency as direct or indirect costs. Examples of such transactions are: Purchase documents; rebates or allowances; recoveries or indemnities on losses; sale of publications, equipment, and scrap; income from personal or incidental services; and, adjustment of overpayments or erroneous charges; and interagency service exchanges.
E. Indirect Costs may also arise when funds are received or are available from sources to finance operations or capital items of the county. These types of credits should likewise be used to reduce related expenditures in determining the rates or amounts applicable to a provider or a given contract/grant.

2. Composition of Cost

1. Total Cost: The total cost of a county or its several agencies is comprised of the allowable direct cost incident to its performance, plus its allocable portion of allowable indirect costs, less applicable credits.

2. Classification of Costs: There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or agency, but indirect with respect to the county overall mission. It is essential, therefore, that each item of cost be treated consistently either as a direct or an indirect cost. Specific guides for determining direct or indirect costs allocable to DFW by providers are provided in the sections which follow.

F. Direct Costs: Definition, and Application

1. General: Direct costs are those that can be identified specifically with a particular DFW contract or grant. These costs may be charged immediately to a DFW contract/grant or to a provider cost objective used for accumulation of costs pending distribution in due course to the contract or grant. Direct costs must be included in the appropriate DFW contract/grant plan and budget.

2. Application: Examples of typical direct costs chargeable to specific contract/grant are:

   (a) Compensation of employees for the time and effort devoted specifically to the contract/grant function(s).

   (b) Cost of material acquired, consumed, or expended specifically for the purpose of the contract/grant function(s).

   (c) Equipment and other approved capital expenditures specifically for the contract/grant.

   (d) Other items of expense incurred specifically to carry out the function(s) of the contract/grant.

G. Indirect Cost: Definition, and Application

1. General: Indirect costs are for supportive activities which cannot be solely attributable to a DFW contract/grant. These costs are allowable if the activities are necessary and beneficial for the efficient performance of the contract/grant. For DFW financial participation, indirect costs must be included in the appropriate DFW approved contract/grant plan and budget.
2. Application: Examples of typical indirect costs chargeable to specific contract/grant are:

(a) Compensation for a provider's central accounting services by charging number of accounting transactions processed for the contract/grant.

(b) Provider's management of contract/grants building leases and equipment.

(c) Any goods, services, and use of facilities supplied to the consuming contract/grant by a provider's organizational unit.

H. Adjustment of Indirect Cost Rate

Two conditions for adjusting indirect costs rates are:

1. a provider audit indicates the need for a change and
2. revised CAP documentation due to program and/or operation changes.

IV. Preparation of Cost Allocation Plan

The preparation of a central service plan is not necessarily a complicated task. Rather, it involves three basic, logical, sequential steps.

1. Identification of the services and the costs of each service to be claimed.

2. Determination of the method for allocating the costs of each service to user departments, organizational units, or contracts/grants.

3. Mathematical allocation of those costs to the user departments or agencies in the form of a single, formal, comprehensive proposal or plan.

The plan should contain (but need not be limited to) the following schedules and narratives.

A. For Services Furnished but not Billed to User Departments or Contracts/Grants:

1. A description of the types of services provided.

2. The items of expense included in the cost of the service.

3. The methods used in distributing the costs to benefiting units;

4. Identification of the service units rendering the service and receiving the service; and,

5. A summary schedule of the allocations of central service costs to benefiting services.
Contracts/Grants:

1. Items 1, 2, and 4 above;

2. A concise, but complete, description of the method used to determine the billing rate or amount for each billed service;

3. A concise, but complete description of the accounting treatment of any under/over-billed costs for the fiscal period; and

4. Costs must be included in and identified as part of the DFW contract/grant budget and plan per DFW defined accounting structure.

C. In Addition To The Above Data, The Plan Should Also Contain:

1. An organizational chart showing all units of the provider even though they may not be shown as benefiting from the central service functions;

2. A certification by an authorized official that the cost allocation plan has been prepared in accordance with applicable policies and procedures, and;

3. A copy of financial statements prepared by either a certified public accountant, licensed public accountant or auditor, or a copy of the official budget of that provider if the budget reports the actual expenditures for the year on which the proposal is based. If these are not available, proposals should be supported by other official financial documents from the most recent fiscal period.

D. Acceptable Methods For Allocating Indirect Costs:

There are many methods for grouping and allocating costs to activities. However, regardless of the methods used in putting a proposal together, it must account for all expenditures of the provider including nonappropriated funds, and miscellaneous funds expenditures.

Single Rate Method - When contract/grants served by a provider benefit to the same relative degree from its indirect costs, or where the activity is not substantial in amount, it is not necessary to make a series of indirect cost distributions. Instead, a single rate may be developed. This involves five basic steps:

1. Identifying all the activities carried on by the provider and their attendant costs. All activities must be included regardless of the source of funds used to pay for them.

2. Incorporating those costs allocated to the user contract/grant through the central service cost allocation plan.

3. Classifying the activities and their costs as direct or indirect.
4. Eliminating from the indirect costs capital expenditures and those costs stipulated as unallowable in the various program regulations.

5. Computing the rate by dividing the total remaining indirect costs by the direct cost base selected for distribution of the indirect costs. In most instances, the types of costs allocated in counties are most equitably allocated on a base of total direct salaries and wages, plus applicable fringe benefits, and, hence, these bases are preferred. However, other bases, such as total direct costs, less capital expenditures, may be used when they can be demonstrated to be more equitable.

**Multiple Rate Method** - The appropriateness of the use of more than one rate for a given county depends on the extent to which the various services being purchased benefit by the indirect costs being claimed. For example, if all agencies benefit equally, a single rate would suffice; but, if one or more services benefit significantly and the cost difference is substantial, multiple rates would be more appropriate. However, often times the effort required to justify multiple rates is more costly than any benefits derived.

**E. Suggested Bases For Cost Distribution**

Following are suggested bases for distributing joint costs of central-type services to services and programs utilizing these services. The suggested bases are not mandatory for use if they are not suitable for the particular services involved. Any method of distribution can be used which will produce an equitable distribution of cost. In selecting one method over another, consideration should be given to the additional effort required to achieve a greater degree of accuracy.

**Type of Indirect Costs:**
- Accounting
- Auditing
- Budgeting
- Buildings Lease Management
- Data Processing
- Disbursing Service
- Employees Retirement System Administration
- Insurance Management System
- Legal Services
- Mail and Messenger Service
- Motor Pool Costs including Automotive Management
- Office Machines and Equipment Maintenance Repairs
- Office Space use and related costs (heat, light, janitor services, etc.)
- Organization and Management Svcs.
- Payroll Services

**Suggested Bases for Allocation to Contracted Services:**
- Number of transactions processed.
- Direct audit hours.
- Direct hours of identifiable services of employees of central budget.
- Number of leases.
- System usage.
- Number of checks or warrants issued.
- Number of employees contributing or participating.
- Dollar value of insurance premiums.
- Direct hours.
- Number of documents handled or employees served.
- Miles driven and/or days used.
- Direct hours.
- Square feet of space occupied.
- Direct hours.
- Number of employees.
V. Costs

The Department's reimbursement of allowable indirect costs is dependent upon each Department contract/grant funding limitations and regulations. Therefore, the Department's funding of allowable indirect costs is a subject which will be addressed in each Department contract/grant. The following two subsections list activities which are allowable and unallowable indirect costs.

A. Allowable Costs

1. Accounting - The cost of establishing and maintaining accounting and other information systems required for the management of the contract/grant is allowable. This includes cost incurred by central service agencies for these purposes. The cost of maintaining county accounting records required for overall local government purposes, such as appropriation and fund accounts by the Treasurer, Comptroller, or similar elected officials, is considered to be a general expense of government and is not allowable.

2. Advertising - Advertising media include newspapers, magazines, radio, and television programs, direct mail, trade papers, and the like. The advertising costs allowable are those which are solely for:

   (a) Solicitation of bids for the procurement of goods and services required;

   (b) Disposal of scrap or surplus materials acquired in the performance of the contract agreement; and,

   (c) Other purposes specifically provided for in the agreement.

3. Audit Service - The cost of audits necessary for the administration and management of functions related to the contract/grant.

4. Bonding - Costs of premiums on bonds covering employees who handle contract/grant funds are allowable.
5. Budgeting — Costs incurred for the development, preparation, presentation, and execution of budgets are allowable. For public providers, costs for services of a central budget office are generally not allowable since these are costs of general government. However, where employees of the central budget office actively participate in the agency’s budget process, the cost of identifiable services is allowable.

6. Building Lease Management — The administrative cost for lease management which includes review of lease proposals, maintenance of a list of available property for lease, and related activities is allowable.

7. Central Stores — The cost of maintaining and operating a central store organization for supplies, equipment, and materials used either directly or indirectly for contracts is allowable.

8. Communications — Communications costs incurred for telephone calls or service, telegraph, teletype service, postage, messenger service and similar expenses are allowable.

9. Disbursing Service — The cost of disbursing funds by the Treasurer or other designated officer is allowable. Disbursing services cover the processing of checks or warrants, from preparation to redemption, including the necessary records of accountability and reconciliation of such records with related cash accounts.

10. Legal Expenses — The cost of legal expenses required in the administration of the contract is allowable. Legal services furnished by the chief legal officer of a local government or his staff solely for the purpose of discharging his general responsibilities as legal officer are unallowable. Legal expenses for the prosecution of claims against Department are unallowable.

11. Maintenance and Repair — Costs incurred for necessary maintenance, repair, or upkeep of property which neither add to the permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition, are allowable.

12. Materials and Supplies — The cost of materials and supplies necessary to carry out the contract is allowable. Purchases made specifically for the contract should be charged thereto at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received. Withdrawals from general stores or stockrooms should be charged at cost under any recognized method of pricing consistently applied. Incoming transportation charges are a proper part of material cost.

13. Motor Pools — The costs of a service organization which provides automobiles to user agencies at a mileage rate and/or provides vehicle maintenance, inspection, and repair services are allowable.
14. Payroll Preparation - The cost of preparing payrolls and maintaining necessary related wage records is allowable.

15. Personnel Administration - Costs for the examination, certification, classification, training, establishment of pay standards, and related activities for the contract are allowable.

16. Planning and Evaluation - The cost of a coordinated central planning and evaluation functions related to the grant/contract services are allowable.

17. Printing and Reproduction - Cost for printing and reproduction services necessary for contract administration, including but not limited to forms, reports, manuals, and informational literature, is allowable. Publication costs of reports or other media relating to grant program accomplishments or results are allowable when provided for in the agreement.

18. Procurement Service - The cost of procurement service, including solicitation of bids, preparation and award of contracts, and all phases of contract administration in providing goods, facilities, and services for contracted services is allowable.

19. Taxes - In general, taxes or payment in lieu of taxes which the contractor is legally required to pay are allowable.

20. Training and Education - The cost of in-service training, customarily provided for employee development which directly or indirectly benefits the contracted service is allowable.

21. Transportation - Costs incurred for freight, cartage, express, postage and other transportation costs relating either to goods purchased, delivered, or moved from one location to another are allowable.

B. Unallowable Costs

1. Bad Debts - Any losses arising from uncollectible accounts and other claims, and related costs, are unallowable, i.e., uncollectible charges by the county to a program cannot be claimed as a bad debt to other programs.

2. Contingencies - Contributions to a contingency reserve or any similar provision for unforeseen events are unallowable.

3. Contributions and Donations - Unallowable.

4. Entertainment - Costs of amusements, social activities, and incidental costs relating thereto, such as meals, beverages, lodgings, rentals, transportation, and gratuities, are unallowable.

5. Fines and Penalties - Costs resulting from violations of, or failure to comply with Federal, State and local laws, and regulations are unallowable.
6. Expenses of Local Elected Officials – The salaries and expenses of the County Commissioners or the chief executive, and their personal staff, of a political subdivision as well as those of all elected local officials are considered a cost of general local government and are unallowable. Functions which are the direct responsibility of the County Commissioners or chief executive but identified in Section V.A. are allowable.

7. Legislative Expenses – Salaries and other expenses of local governmental bodies such as county supervisors, city councils, school boards, etc., whether incurred for purposes of legislation or executive direction, are unallowable.

8. Preagreement Costs – Costs incurred prior to the effective date of the contract, whether or not they would have been allowable thereunder, if incurred after such date, are unallowable.

9. Proposal Costs – Costs of preparing proposals or potential agreements not required by the Department are unallowable.

10. Under-Recovery of Costs under Agreements. Any excess of cost over the Department's contribution under one agreement is unallowable under other agreements.

11. Research and Development Costs – Independent research and development costs not specifically identified in the contract are unallowable.

12. Losses on other Contracts – Any excess costs over income on a contract are unallowable as a cost on another contract.

13. Organization Costs – Expenditures such as incorporation, attorney's or broker fees, or fees to promoters or organizers for purposes of 1) organizing or reorganizing a business, or 2) raising capital, are unallowable.

14. Education Grants and Non-Related Training – Grants to educational or training institutions are considered contributions and are unallowable. Costs of training for employees other than those directly related to the contract are unallowable.

15. Roll Forward Adjustments – Adjustments for actual costs which increase prior year rates may not be rolled forward and charged to current year allocations.

VI Audit

A. General

The county must maintain a single complete file regarding the CAP and supporting documentation. This file must be made available to Department staff or representative on request for review/audit purposes. Failure to maintain or provide documentation will result in total disallowance of indirect cost reimbursements for all Department programs.
B. Policy/Principles

The county must contract for an independent audit by a certified public or registered accountant of the CAP; failure to supply an audit will result in total disallowance of indirect cost reimbursements. The auditor must perform a comprehensive audit which includes the verification that the CAP presents a fair, equitable distribution of costs for activities classified as indirect and ensure that all county operations benefiting from the activity are charged or allocated a portion of the costs. The auditor must certify that the county CAP is in compliance with DFW regulations. The audit is to be conducted in accordance with generally accepted auditing standards as well as any Department issued guidelines. The Commonwealth's Auditor General, Department of Public Welfare, and State Comptroller's Office may audit a county CAP at any time; and such audit at the discretion of the Executive Deputy Secretary of Public Welfare may be substituted for the independent audit requirement.

C. Frequency and Distribution

The first CAP audit must be completed within 105 days after the last day of the first state fiscal year in which the CAP was applied. Thereafter, an audit of the CAP will be required on a periodic basis of at least every five years. As required, CAP audits are to be submitted to the appropriate DFW Office of Fiscal Management Field Office.

D. Disposition

Department staff will review audits of county CAPs. Field Office staff will prepare a summary of audit findings and recommendations for submission to the Office of Fiscal Management (OFM). OFM staff will coordinate external administrative and program office review and disposition of audit. Notification of and instructions for corrective activity and financial disallowances will be reviewed with applicable program office staff prior to implementation through Field Office staff.
APPENDIX A

SAMPLE COST ALLOCATION PLAN FORMATS

1. CENTRAL SERVICE COST ALLOCATION PLAN
   Exhibit A  Summary of Allocated Central Service Costs
   Schedule A-1 Allocation of Costs, Personnel Department
   Schedule A-2 Costs to be Allocated, Personnel Department
   Schedule A-3 Statement of Function and Benefit, Personnel Department
   Exhibit A-1 Summary of Central Services Billed to User Organizations

2. INDIRECT COST RATE PROPOSALS
   Exhibit B  Short Form Method
   Exhibit C  Simplified Method
   Exhibit D  Alternate Simplified Method
   Exhibit E  Multiple Rate Method

3. CONSOLIDATED LOCAL CENTRAL SERVICE COST ALLOCATION PLAN AND INDIRECT COST PROPOSAL
   Exhibit F  Sample Proposal
This exhibit is a sample illustration of a central service cost allocation plan. It consists of:

Exhibit A—Summary of Allocated Central Service Costs. This exhibit shows each central service, and the attendant costs, which benefit Federal grants and contracts and for which a State or local government wishes to make a claim. This exhibit must be supported by detailed schedules comparable to A-1-A-3 for each included central service.

Schedule A-1—Allocation of Costs, Personnel Department. The personnel department has been selected as an illustrative central service. This schedule shows those State or organizations to which the personnel department provides services and the allocation of its costs to those organizations. This schedule is supported by Schedules A-2 and A-3.

Schedule A-2—Costs to be Allocated, Personnel Department. This schedule shows the composition of the costs of the personnel department as contained in official financial or budget statements and a reconciliation of those costs with the amount allocated in Schedule A-1.

Schedule A-3—Statement of Function and Benefit, Personnel Department. This schedule is a narrative description of the activities conducted by the personnel department, their necessity (benefit) to the successful performance of federally supported programs, a description of the base(s) selected to distribute the costs of those activities to the organizations to which services are rendered and the rationale for the base(s) selected.

Exhibit A-1—Summary of Central Services Billed. It is common practice for central service departments to bill those organizations to which they render services for the cost of those services. This exhibit illustrates the services billed to organizations conducting Federal grants and contracts, the costs included in the billing, the methodology for computing the billing rate, etc.

Amounts allocated to the operating departments from the central service cost allocation plan in Exhibits A and A-1, are carried forward to Exhibits B, C, D, and E which illustrate various sample formats for an indirect cost rate proposal.

Only a few of the many possible central services have been shown in Exhibit A and only one central service department is shown in the accompanying Schedules A-1 through A-3. A central service cost allocation plan may include any other services and their attendant costs which are allowable under FMC 74-4 and for which documentation can be provided. Each type of cost claimed should be supported by appropriate schedules and other documentation sufficient to provide a reasonable basis for evaluation and acceptance.
**EXHIBIT A**

**SAMPLE FORMAT:**

**CENTRAL SERVICE COST ALLOCATION PLAN**
**SUMMARY OF_ALLOCATED CENTRAL SERVICE COSTS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 19**

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<th>Department/Operating Unit</th>
<th>Personnel ($)</th>
<th>Accounting ($)</th>
<th>Purchasing ($)</th>
<th>Audit ($)</th>
<th>Total Allocated Costs ($)</th>
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</thead>
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<td>20,145</td>
<td>3,412</td>
<td>1,675</td>
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</tr>
<tr>
<td>Environmental Services</td>
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<td>2,221</td>
<td>1,221</td>
<td>35,971</td>
</tr>
<tr>
<td>Social Services</td>
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<td>7,984</td>
<td>896</td>
<td>645</td>
<td>12,712</td>
</tr>
<tr>
<td>Highway</td>
<td>15,132</td>
<td>42,355</td>
<td>6,751</td>
<td>6,227</td>
<td>70,965</td>
</tr>
<tr>
<td>Police</td>
<td>29,348</td>
<td>51,960</td>
<td>9,475</td>
<td>11,421</td>
<td>102,704</td>
</tr>
<tr>
<td>Fire</td>
<td>24,873</td>
<td>49,743</td>
<td>9,997</td>
<td>14,526</td>
<td>99,139</td>
</tr>
<tr>
<td>Other Departments</td>
<td>57,048</td>
<td>187,609</td>
<td>21,421</td>
<td>18,654</td>
<td>234,211</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>$148,940</strong></td>
<td><strong>$351,917</strong></td>
<td><strong>$54,153</strong></td>
<td><strong>$54,569</strong></td>
<td><strong>$659,409</strong></td>
</tr>
</tbody>
</table>

(a) Allocated amounts shown are from Schedule A-1. In an actual plan, the remaining service departments would similarly need to be supported by separate schedules showing the computation of the allocated amounts.

(b) These amounts are includable in the indirect cost proposals of the individual operating Departments/units. See Exhibits B, C, D, and E.
### Schedule A-1

**Sample Format**

**Central Service Cost Allocation Plan**

**Allocation of Costs, Personnel Department**

**For the Fiscal Year Ended June 30, 19**

<table>
<thead>
<tr>
<th>Department/Unit</th>
<th>Number of Employees</th>
<th>Percent</th>
<th>Allocation ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>188</td>
<td>6.61</td>
<td>$9,945</td>
</tr>
<tr>
<td>Environmental Services</td>
<td>170</td>
<td>5.98</td>
<td>3,907</td>
</tr>
<tr>
<td>Social Services</td>
<td>61</td>
<td>2.14</td>
<td>7,447</td>
</tr>
<tr>
<td>Highway</td>
<td>229</td>
<td>10.16</td>
<td>15,132</td>
</tr>
<tr>
<td>Police</td>
<td>370</td>
<td>20.04</td>
<td>29,348</td>
</tr>
<tr>
<td>Fire</td>
<td>475</td>
<td>16.70</td>
<td>34,273</td>
</tr>
<tr>
<td>Other Departments (b)</td>
<td>1,091</td>
<td>38.37</td>
<td>77,040</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,444</strong></td>
<td><strong>100.00</strong></td>
<td><strong>$148,940</strong></td>
</tr>
</tbody>
</table>

(a) Allocation base must include all employees of all operating departments that are serviced by the personnel department.

(b) These departments that do not perform Federal programs may be grouped together.

(c) The allocated amounts are carried forward in summary schedule in Exhibit A. The total of $148,940 comes from Schedule A-2.

*This is a sample only and, accordingly, is brief and simple. In practice, the type and level of service provided by the personnel department to the various organizations served may require a separate allocation for each service or to different organizations served.
SCHEDULE A-2

SAMPLE FORMAT

CENTRAL SERVICE COST ALLOCATION PLAN
COSTS TO BE ALLOCATED, PERSONNEL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 19--

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Wages</td>
<td>$140,000</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>16,000</td>
</tr>
<tr>
<td>Supplies</td>
<td>8,000</td>
</tr>
<tr>
<td>Travel</td>
<td></td>
</tr>
<tr>
<td>Maintenance &amp; Janitorial Services</td>
<td>7,012</td>
</tr>
<tr>
<td>Capital Outlay</td>
<td>7,561</td>
</tr>
</tbody>
</table>

Total Costs: $186,561

Less: Unallowable Costs, Capital Outlay $7,561

Costs Chargeable to Federal Grant (b) $30,000

Total Costs to be allocated on Schedule A-1 $148,940 (a)

(a) The costs allocated must be reconciled to appropriate financial documents, either financial statements, budgets or a combination of both. In this example the government's base data was cost incurred for its most recent fiscal year.

(b) Represents charges to a Federal grant awarded to assist the State or local government to improve its personnel system. If a supporting agency received an award from the Federal Government, all costs incurred in connection with the award (including any costs that are required for matching or cost sharing) must be eliminated prior to the distribution of the supporting agency's costs to the user departments or agencies.

--This is a sample only and hence, is brief and simple. In practice, this schedule should be sufficiently detailed to show the costs of major activities, branches, etc. of the personnel departments in a manner permitting a reasonable assessment of the costs claimed against Federal programs.--
SCHEDULE A-3

SAMPLE FORMAT

CENTRAL SERVICE COST ALLOCATION PLAN
STATEMENT OF FUNCTION & BENEFIT, PERSONNEL DEPARTMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 19-

The personnel department is responsible for overall administration of the Civil Service program. This includes recruiting, interviewing, testing and referring potential candidates for more than 2,000 municipal jobs.

The personnel department administers the classifications and salary programs and is responsible for recommending personnel policies and procedures to the Civil Service Commission for approval.

The department is involved in the design of the various employee benefit programs. After installation, the department reviews and maintains the records on these programs.

Active and inactive personnel records are maintained on all municipal employees.

The personnel department is responsible for maintaining the safety program (including workers' compensation and injury level) and the city training programs.

All functions and services performed by the personnel department benefit all departments of the city. Federal programs are benefited because city employees are hired to work in these programs. Therefore, the costs of the personnel department have been distributed to all departments of the city.

The basis for allocation is the number of employees per department. The base data is readily available and verifiable. All employees receive essentially the same type and level of services. Hence, this base reflects that condition by distributing the total cost of providing these services to each department in proportion to its relative number of employees.

This is a sample only and hence, is brief and simple. In practice, this schedule should be sufficiently detailed to provide narrative explanations of the functions and benefits associated with the costs being allocated.

-20-
CENTRAL SERVICE COST ALLOCATION PLAN
SUMMARY OF CENTRAL SERVICES BILLED TO USER ORGANIZATIONS

Motor Pool
The State (or local government) operates a central motor pool which makes
cars, trucks and buses available to user departments. User departments are
billed for each mile driven: cars-15 cents per mile; trucks-25 cents per mile;
and buses-30 cents per mile. The basis for the charge is the most recent
study of cost per mile driven, performed by the internal audit staff. Any
over or under recovery is applied to the next year's expected expenditures
and is included in that year's billing rate. The costs included are salaries and
wages and fringe benefits of motor pool personnel, their travel, supplies and
parts and use charges for equipment and buildings and vehicles determined
in accordance with FMC 74-4.

Data Processing
The State (or local government) operates a central computer center
consisting of an IBM system 370/115, and Control Data 3100 and Cyber 70
series configuration. The center provides both regular continuing and
special job computer support to most operating and staff departments.
Billings for services are made to user organizations based on a standard
price schedule. The price schedule is related to, and, designed to recover the
costs of various types of jobs on each system. It is revised quarterly and
audited annually by the internal audit department. Profits or losses are
carried forward and used to adjust price schedules of ensuing quarterly
billing rates. Costs consists of salaries and wages and fringe benefits of
center personnel, supplies, maintenance and utilities, and straight line
depreciation of equipment based on a fifteen year life.

Long Distance Telephone
All long distance telephone calls are placed through a central switchboard
and are billed to the organizations making the call.

NOTES
If a direct billing mechanism is used by the government, then all users must be billed. Billing
of selected departments and allocation of residual amounts through the cost allocation plan to
remaining departments results in inequitable costing and is not acceptable. However, if all users
are billed, residual amounts may be allocated through the allocation plan provided they are not
material and the allocation base is equitable.

A detailed breakdown of costs is not normally required as a part of this exhibit. However, the
submitting State or local government must have and make available to the Federal cognizant
agency such cost and revenue breakdowns, utilization records and other information as is
necessary to permit a reasonable assessment of the costs incurred and charges made.

*This is a sample only, and hence, is brief and simple. In practice, the number and types of
services billed may be greater than shown here and may require more extensive description and
explanation.
### DESCRIPTION OF EXHIBIT B

Exhibit B illustrates the computation of indirect costs for programs operated within a department using the short form method. The costs of the department are categorized as short-form method is the least complex of the various methods of computing departmental indirect costs. This method is used in those instances where indirect costs at the division or bureau level are not identified. Thus, all costs incurred at the division or bureau level are treated as direct costs. If division or bureau level indirect costs can be identified, the simplified method (Exhibit C), the alternate simplified method (Exhibit D) or the multiple rate method (Exhibit E) may be used.

### EXHIBIT B

#### SAMPLE FORMAT

<table>
<thead>
<tr>
<th>Department/Bureau</th>
<th>Excludable Costs ($)</th>
<th>Unallowable Costs ($)</th>
<th>Indirect Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Quality and Noise</td>
<td>52,158.100</td>
<td>$1,100,000</td>
<td>21,500</td>
</tr>
<tr>
<td>Community Environmental Control</td>
<td>245,200</td>
<td></td>
<td>12,500</td>
</tr>
<tr>
<td>Water Quality Management</td>
<td>248,300</td>
<td>3,600</td>
<td>190,700</td>
</tr>
<tr>
<td>Solid Waste Disposal</td>
<td>642,100</td>
<td>-51,000</td>
<td>474,100</td>
</tr>
<tr>
<td>Parks and Forests</td>
<td>233,700</td>
<td>11,500</td>
<td>216,300</td>
</tr>
<tr>
<td><strong>Departmental Indirect Costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office of the Director</td>
<td>35,600</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td>Financial Management</td>
<td>56,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative Services</td>
<td>61,100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment Use</td>
<td>1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Costs</strong></td>
<td>$2,772,371</td>
<td>$1,500,000</td>
<td>$197,700</td>
</tr>
</tbody>
</table>

#### Rate Calculation

<table>
<thead>
<tr>
<th>Indirect Costs</th>
<th>Direct Salaries and Wages</th>
</tr>
</thead>
<tbody>
<tr>
<td>$184,171</td>
<td>$1,357,000</td>
</tr>
</tbody>
</table>

*This is a sample only and is not intended to prescribe methods of charging costs.*

---

-22-
Notes to Exhibit B

(a) Total departmental costs. This amount should be reconciled to the financial statements or other supporting documentation submitted with the proposal and would include costs billed from the Central Plan as well as departmental billed costs (billed costs should be in compliance with Exhibit A-1).

(b) Under some Federal programs funds are provided to a grantee and subsequently passed through to another organization which actually performs the program for which the funds are provided. In the use or administration of the funds, this example illustrates such a situation. Since these funds, which are recorded as expenditure, are excluded from the records of the department, they do not reflect the expenditure of resources. However, if the grantee does in fact incur a significant amount of costs in administering the grant, then it should be assessed for its equitable share of indirect costs. This column would be normally used by States only and not by local governments.

(c) Expenditures not allowable. This amount represents costs of capital expenditures and other costs which are unallowable under FMCS 7.4.2, Unallowable Costs, or the share of indirect costs if they either generated or benefited from the indirect costs. In this example this is not the case.

(d) Salaries and wages. This amount is set out simply because it is the base upon which the indirect cost rate is calculated.

(e) Central Service Cost Allocation Plan Costs. The amounts shown as allocated must agree with the amounts shown on the Central Service Cost Allocation Plan (see Exhibit A-1).
DESCRIPTION OF EXHIBIT C

Exhibit C illustrates the distribution of indirect costs of a State or local government department, the division/bureau of the department and the cost of central services provided to it. Exhibit C differs from Exhibit B in that recognition is given to the indirect costs within each division. Under the Short Form Method illustrated in Exhibit B, where indirect costs are not identified at the division/or bureau level, all costs are treated as direct costs. Under the Simplified Method shown in this Exhibit, indirect costs are identified at the division or bureau level, and are so indicated. This method may be used if the ratio of the indirect costs to direct salaries and wages (or other selected base) of each division or bureau reasonably approximates the ratio of the other divisions or is otherwise not inequitable to the Federal government. If, the indirect/direct ratio varies significantly between divisions or bureau, the Alternate Simplified Method (Exhibit D) or the Multiple Rate Method (Exhibit E) should be used.

EXHIBIT C

SAMPLE FORMAT

DEPARTMENT OF ENVIRONMENTAL SERVICES

INDIRECT COST RATE PROPOSAL—SIMPLIFIED METHOD*

FOR THE FISCAL YEAR ENDED JUNE 30, 19--

<table>
<thead>
<tr>
<th>Division/Bureau</th>
<th>Total (a)</th>
<th>Exclusions (b)</th>
<th>Expenditures Not Allowable (c)</th>
<th>Indirect Costs (d)</th>
<th>Direct Costs (e)</th>
<th>Expenditures For All Other Purposes (f)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>23,190,000</td>
<td>$7,100,000</td>
<td>$21,000</td>
<td>$28,100</td>
<td>$232,600</td>
<td>$63,000</td>
</tr>
<tr>
<td>Air Quality and Noise</td>
<td>245,000</td>
<td>12,200</td>
<td>20,100</td>
<td>178,100</td>
<td>42,500</td>
<td></td>
</tr>
<tr>
<td>Community Environmental Control</td>
<td>233,400</td>
<td>9,000</td>
<td>21,000</td>
<td>178,100</td>
<td>46,700</td>
<td></td>
</tr>
<tr>
<td>Water Quality Management</td>
<td>644,200</td>
<td>11,200</td>
<td>10,900</td>
<td>431,000</td>
<td>109,400</td>
<td></td>
</tr>
<tr>
<td>Parks and Forests</td>
<td>2,730,700</td>
<td></td>
<td></td>
<td>195,900</td>
<td>53,100</td>
<td></td>
</tr>
</tbody>
</table>

Departmental Indirect Costs

<p>| | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Office of the Director</td>
<td>24,000</td>
<td></td>
<td></td>
<td>15,600</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Management</td>
<td>56,000</td>
<td></td>
<td></td>
<td>56,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative Services</td>
<td>62,100</td>
<td></td>
<td></td>
<td>62,100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment Use</td>
<td>9,000</td>
<td></td>
<td></td>
<td>9,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total Departmental Indirect Costs: 13,751,400

Services Furnished (But Not Billed)

<p>| | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td>8,307</td>
<td></td>
<td></td>
<td>8,307</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting</td>
<td>21,422</td>
<td></td>
<td></td>
<td>21,422</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchasing</td>
<td>2,221</td>
<td></td>
<td></td>
<td>2,221</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit</td>
<td>1,221</td>
<td></td>
<td></td>
<td>1,221</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total: $3,772,271

*NOTE: Indirect Costs are calculated based on the departmental indirect costs as a percentage of direct costs for all other purposes.
Notes to Exhibit C

(a) Under some Federal programs funds are provided to a grantee and subsequently passed through to another organization for the use of administration of the funds. This example illustrates such a situation. Since these funds, which are recorded as expenditures, they are excluded from the should be assessed for its equitable share of indirect costs. This column is normally used by States only and not local governments.

(b) Expenditures not allowable. This amount represents costs of capital expenditures and costs, whether direct or indirect, which are unallowable in accordance with the cost principles. Although a cost may be unallowable if it is related to services or equipment, it should be treated as an expense (providing it is salaries and wages in this example) and

(c) Under the Simplified Method, a determination is made as to which activities are direct, illustrates under the heading Direct Costs, and which are indirect, illustrates under the heading Indirect Costs.

(d) Once the determination of direct/indirect has been made, a ratio should be determined for each division/bureau as shown

<table>
<thead>
<tr>
<th>Division/Bureau</th>
<th>Indirect Costs</th>
<th>Direct Salaries and Wages</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Quality &amp; Noise</td>
<td>$28,100</td>
<td>$325,400</td>
<td>11.94%</td>
</tr>
<tr>
<td>Community Environmental Control</td>
<td>$20,100</td>
<td>170,000</td>
<td>11.82%</td>
</tr>
<tr>
<td>Water Quality Management</td>
<td>$21,000</td>
<td>178,100</td>
<td>11.79%</td>
</tr>
<tr>
<td>Solid Waste Disposal</td>
<td>$50,000</td>
<td>431,000</td>
<td>11.11%</td>
</tr>
<tr>
<td>Parks &amp; Forests</td>
<td>$33,200</td>
<td>195,300</td>
<td>11.14%</td>
</tr>
</tbody>
</table>

In this illustration, the dollar amounts of indirect costs differ significantly between division or bureaus; however, when individually expressed as a percentage of direct salaries and wages the differences are minor. Therefore, a simple overall rate of government agencies and allocating the indirect cost pool over a single base.

(e) Total departmental costs. This amount should be reconciled to the financial statements or other supporting documentation included in the proposal.

(f) Costs incurred by other government agencies. This amount must agree with the amounts shown on the central service Cost Allocation Plan (see Exhibit A). In this illustration, costs of $33,971 represent costs of central services allocated to the entire department. Government-wide services that are billed directly to departments or to programs must also be documented in the cost allocation plan (See Exhibit A-1).

This is a sample only and is not intended to prescribe methods of charging costs.
DESCRIPTION OF EXHIBIT C-1

The totals from Exhibit C are brought forward to this Exhibit. The indirect cost rate is expressed as a percentage resulting from the ratio of the allowable indirect costs ($339,971) to the direct salaries and wages ($1,210,400).

EXHIBIT C-1

SAMPLE FORMAT

DEPARTMENT OF ENVIRONMENTAL SERVICES
INDIRECT COST RATE PROPOSAL—SIMPLIFIED METHOD
FOR THE FISCAL YEAR ENDED JUNE 30, 19--

<table>
<thead>
<tr>
<th>Total</th>
<th>Exclusions &amp; Expenditures Not Allowable</th>
<th>Indirect Costs</th>
<th>Direct Salaries &amp; Wages</th>
<th>Other Direct Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,777,571</td>
<td>$1,906,200</td>
<td>$339,971</td>
<td>$1,210,400</td>
<td>$315,800</td>
</tr>
</tbody>
</table>

(A) divided by (B) = $339,971 / $1,210,400 = indirect cost rate of 28.09% of direct salaries and wages excluding fringe benefits.

Treatment of Fringe Benefits

In this example, fringe benefits applicable to direct salaries and wages are treated as direct costs.

---

This is a sample only and is not intended to prescribe methods of charging costs.
DESCRIPTION OF EXHIBIT D

This method illustrates the distribution of indirect costs to functional divisions or bureaus in order to determine separate indirect cost rates for each division or bureau. This method provides more definitive costing in those instances where, indirect effort at the division or bureau level is material in amount and differs sufficiently from division to division to warrant a more precise method of costing than shown in the simplified method in Exhibit C.

This computation recognizes indirect costs of (1) each division or bureau, (2) the department, and (3) services furnished (but not billed) by other local government agencies. Indirect costs at the department level and central service level are allocated to the divisions or bureaus on a single base. A rate is then developed for each of the divisions or bureaus by relating the indirect costs of each division or bureau to the selected basis for allocation for each division or bureau.
### EXHIBIT D

#### SAMPLE FORMAT

**INDIRECT COST RATE PROPOSAL: ALTERNATE SIMPLIFIED METHOD**

**DEPARTMENT OF ENVIRONMENTAL SERVICES**

**FOR THE FISCAL YEAR ENDED JUNE 30, 19...**

<table>
<thead>
<tr>
<th>Departmental Indirect Costs</th>
<th>Allocation to Division/Function</th>
<th>Community Indirect Costs</th>
<th>Solid Waste Indirect Costs</th>
<th>Parks and Forests Indirect Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditures Not Allowable (a)</td>
<td>$110,100</td>
<td>$11,200</td>
<td>$9,600</td>
<td>$11,000</td>
</tr>
<tr>
<td>Direct Salaries and Wages (b)</td>
<td>1,561,500</td>
<td>171,200</td>
<td>101,600</td>
<td>111,800</td>
</tr>
<tr>
<td>Other Direct Expenditures (c)</td>
<td>2,051,100</td>
<td>211,900</td>
<td>117,300</td>
<td>127,600</td>
</tr>
<tr>
<td>Division/Function Indirect Costs (d)</td>
<td>201,100</td>
<td>$10,000</td>
<td>9,000</td>
<td>8,100</td>
</tr>
</tbody>
</table>

**Departmental Indirect Costs**

- Office of the Director:
  - Financial Management: $10,000
  - Administrative Services: $9,000
  - Equipment (Use): $1,000

**Total Departmental Indirect Costs**

- $100,300
- $10,000
- $9,000
- $8,000
- $7,000

**Total Departmental Costs**

- $2,211,100
- $1,000,000

**Services Furnished (Not Net Deduced) By Other Government Agencies (d)**

| Personnel | $2,100 |
| Accounting | $21,400 |
| Purchasing | $1,100 |
| Audit | $1,100 |

**Total Services Furnished**

- $21,200

**Total Costs**

- $2,232,300
- $1,000,000

**Total Indirect Costs**

- $100,300
- $10,000
- $9,000
- $8,000
- $7,000

**Indirect Cost Rates (See Note (e))**

<table>
<thead>
<tr>
<th>Service</th>
<th>Indirect Costs ($1,000)</th>
<th>Salary and Wages ($1,000)</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Quality and Noise</td>
<td>$44,600</td>
<td>$111,600</td>
<td>31.66%</td>
</tr>
<tr>
<td>Community Environmental Control</td>
<td>42,100</td>
<td>111,600</td>
<td>37.48%</td>
</tr>
<tr>
<td>Water Quality</td>
<td>41,500</td>
<td>111,600</td>
<td>36.97%</td>
</tr>
<tr>
<td>Solid Waste Disposal</td>
<td>31,800</td>
<td>111,600</td>
<td>28.33%</td>
</tr>
<tr>
<td>Parks and Forest</td>
<td>30,300</td>
<td>111,600</td>
<td>27.06%</td>
</tr>
</tbody>
</table>

**Total**

- $101,700

---

*This is a sample only and is not intended to prescribe methods of charging costs.*
Notes to Exhibit D

(a) Expenditures not allowable. This amount represents costs of capital expenditures and both direct and indirect costs which are not allowable in accordance with the cost principles. Although a direct cost may be not allowable, it should be allocated its share of indirect costs if it either generated or benefited from the indirect costs.

(b) A determination is made as to which functions are direct and which are indirect at the division or bureau level. Next, direct salaries and wages are separately identified from other direct expenditures. An analysis is made to determine the ratio of indirect costs to direct salaries and wages to determine the amount of variance between divisions and bureaus:

<table>
<thead>
<tr>
<th>Division/Bureau</th>
<th>Divisional Indirect Costs</th>
<th>Direct Salaries and Wages</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Quality and Noise</td>
<td>$12,000</td>
<td>$251,500</td>
<td>4.77%</td>
</tr>
<tr>
<td>Community Environmental Control</td>
<td>12.100</td>
<td>178,600</td>
<td>6.80%</td>
</tr>
<tr>
<td>Water Quality</td>
<td>14,400</td>
<td>184,700</td>
<td>7.39%</td>
</tr>
<tr>
<td>Solid Waste Disposal</td>
<td>117,900</td>
<td>373,000</td>
<td>31.54%</td>
</tr>
<tr>
<td>Parks and Forests</td>
<td>50.700</td>
<td>175,500</td>
<td>28.29%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$207,100</strong></td>
<td><strong>$1,164,700</strong></td>
<td><strong>17.78%</strong></td>
</tr>
</tbody>
</table>

The difference in the rates of indirect costs incurred per division or bureau when related to the direct salaries and wages are significant enough to preclude the use of a single department-wide rate. Separate pools should be established for each division or bureau and a portion of the central service costs and departmental indirect costs allocated to each pool.

(c) In this example, departmental indirect costs are allocated to the division or bureau on the basis of direct salaries and wages incurred in each division or bureau.

<table>
<thead>
<tr>
<th>Departmental Indirect Costs</th>
<th>Allocated Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Quality and Noise</td>
<td>$33,133</td>
</tr>
<tr>
<td>Community Environmental Control</td>
<td>24,865</td>
</tr>
<tr>
<td>Water Quality</td>
<td>25,301</td>
</tr>
<tr>
<td>Solid Waste Disposal</td>
<td>52,385</td>
</tr>
<tr>
<td>Parks and Forests</td>
<td>24,516</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$162,700</strong></td>
</tr>
</tbody>
</table>

(d) Costs incurred by other governmental agencies are allocated to the divisions or bureaus on the basis of direct salaries and wages.

<table>
<thead>
<tr>
<th>Departmental Indirect Costs</th>
<th>Allocated Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Quality and Noise</td>
<td>$7,336</td>
</tr>
<tr>
<td>Community Environmental Control</td>
<td>5,192</td>
</tr>
<tr>
<td>Water Quality</td>
<td>5,397</td>
</tr>
<tr>
<td>Solid Waste Disposal</td>
<td>10,937</td>
</tr>
<tr>
<td>Parks and Forests</td>
<td>5,119</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$33,971</strong></td>
</tr>
</tbody>
</table>
Notes to Exhibit D (Continued)

(e) Total indirect costs include (1) division/bureau indirect costs, (2) departmental indirect costs, and (3) services furnished (but not billed) by other government agencies. The total indirect expenses for each division or bureau are carried forward to Exhibit D, where the relationship between the indirect expenses and the direct salaries and wages of each division or bureau is used to develop indirect cost rates.

(f) Under some Federal programs, funds are provided to a grantee and subsequently passed through to another organization which actually performs the program for which the funds are provided. There is no measurable involvement by the grantee in the use or administration of the funds. This example illustrates such a situation. Since these funds, which are recorded as a cost in the records of the department do not reflect the expenditure of resources, they are excluded from the computation. However, if the grantee does in fact incur a significant amount of costs in administering the grant, then it should be assessed for its equitable share of indirect costs. This column would be normally used by States only and not by local governments.

(g) This amount should be reconciled to the financial statements or other supporting documentation submitted with the proposal.
DESCRIPTION OF EXHIBIT E

Exhibit E illustrates the distribution of indirect costs on a multiple allocation basis to each division or bureau within a Department. This method results in more definitive costing and is for use when operating differences between divisions or bureaus result in material differences in the use of resources and in costs.

The computation recognizes (1) the indirect costs of each division or bureau, (2) department level administration, and (3) the cost of services furnished by other government agencies and approved through the central service cost allocation plan. These costs are allocated to the divisions or bureaus on bases which most fairly give effect to the extent to which they benefit from or generate the costs. For example, the costs of purchasing services is allocated on the number of purchase orders issued while the costs of personnel administration is allocated on the number of employees serviced.

Indirect costs allocated from the department level and from the central service plan are added to the indirect costs incurred by each division or bureau to arrive at total indirect costs for each of the divisions or bureaus. As in the method described in Exhibit D, a rate is developed for each division or bureau by relating its indirect costs to its salaries and wages or other selected base.
# EXHIBIT E

## SAMPLE FORMAT

### DEPARTMENT OF ENVIRONMENTAL SERVICES

**INDIRECT COST RATE PROPOSAL, MULTIPLE RATE METHOD**

**FOR THE FISCAL YEAR ENDED JUNE 30, 19-**

<table>
<thead>
<tr>
<th>Services Furnished (Not Billed by Other Government Agencies)</th>
<th>Indirect Costs</th>
<th>Total Costs</th>
<th>Services Furnished by Other Gov't Agencies (c)</th>
<th>Departmental Cost (d)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allocation</td>
<td>Total</td>
<td>Personnel</td>
<td>Accounting</td>
<td>Purchasing</td>
</tr>
<tr>
<td>Date (a)</td>
<td>(b)</td>
<td>(c)</td>
<td>(d)</td>
<td>(e)</td>
</tr>
<tr>
<td>Personnel</td>
<td>$ 6,580</td>
<td></td>
<td>($10,900)</td>
<td></td>
</tr>
<tr>
<td>Accounting</td>
<td>31,452</td>
<td></td>
<td>($51,452)</td>
<td></td>
</tr>
<tr>
<td>Purchasing</td>
<td>1,321</td>
<td></td>
<td>($12,321)</td>
<td></td>
</tr>
<tr>
<td>Audit</td>
<td>1,321</td>
<td></td>
<td>($12,321)</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$33,921</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Departmental Indirect Costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment Use</td>
<td>$ 9,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial Items</td>
<td>$45,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>$48,100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Director's Office</td>
<td>$39,600</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$134,700</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Division/Bureau</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Air Quality &amp; Noise</td>
<td>$38,100</td>
<td>$1,492</td>
<td></td>
<td>$4,188</td>
</tr>
<tr>
<td>Surface Control</td>
<td>20,300</td>
<td>1,242</td>
<td>2,432</td>
<td>382</td>
</tr>
<tr>
<td>Waste Quality</td>
<td>31,000</td>
<td>1,532</td>
<td>1,540</td>
<td>318</td>
</tr>
<tr>
<td>Solid Waste Disposal</td>
<td>18,900</td>
<td>1,365</td>
<td>2,505</td>
<td>515</td>
</tr>
<tr>
<td>Parks &amp; Forest</td>
<td>13,300</td>
<td>1,117</td>
<td>1,117</td>
<td>117</td>
</tr>
<tr>
<td>Fleet Construction</td>
<td>11,200</td>
<td>910</td>
<td>214</td>
<td>47</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$138,500</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$172,400</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*This is a sample only and is not intended to prescribe methods of charging costs.*
Notes to Exhibit E

(a) The allocation bases used were selected as reasonable and applicable under the circumstances. Other bases would be just as acceptable if they represented a fair measure of cost generation or cost benefit.

(b) The costs in this column must be reconciled to official financial statements. In this illustration, it is assumed that all costs incurred were allowable and relevant in accordance with FMC 744. To the extent that unallowable or excludable (See Exhibit B Note (b)) costs are included therein, a separate column should be added to the schedule to show the amounts and adjustments made.

(c) The costs of services furnished (but not billed) by other government agencies which are derived through the central service cost allocation plan, are allocated to each functional division or bureau. This allocation could be made more precise by allocating the costs to each departmental administrative function, e.g. financial management, administrative services, etc., and to the divisions or bureaus. The indirect costs of each departmental administrative service plus its allowed amount of central service costs would then be allocated to the divisions or bureaus. If the result of such allocations would have a material effect on the rates computed, the more precise method should be used. In the example presented, the dollar effect is not sufficiently material to warrant this level of precision.

(d) Departmental indirect costs are allocated to each division or bureau. As with services furnished by other Federal agencies, explained in Note (c), the allocation of certain departmental indirect costs, such as equipment use charges could have been allocated to other departmental administrative functions, if the results of such allocation would have had a material effect on the rates to be computed. In the example presented, the dollar effect is not sufficiently material to warrant the additional allocations.

(e) The costs of services furnished (but not billed) by other government agencies is derived from the central service cost allocation plan shown in Exhibit A. In addition to the listed unbilled services, the department also received services from other organizations for which it is billed at rates approved through the central service cost allocation plan (See Exhibit A-1). This illustration assumes that these billed costs are already recorded in the accounting records of the department and included in the column-total indirect costs, or treated as a direct cost.

(f) Accounting services rendered by other agencies are allocated to the divisions or bureaus on the basis of number of employees. In this illustration, the accounting services provided by the central service agency were predominantly payroll services.

(g) The total indirect expenses developed for each division or bureau is carried forward to Exhibit E-1, where the relationship between the indirect expenses and direct salaries and wages of each division or bureau is used to develop indirect cost rates.
## EXHIBIT E-1

### SAMPLE FORMAT

**DEPARTMENT OF ENVIRONMENTAL SERVICES**

**INDIRECT COST RATE PROPOSAL-MULTIPLE RATE METHOD**

**FOR THE FISCAL YEAR ENDED JUNE 30, 19--**

<table>
<thead>
<tr>
<th>Divisions/Bureaus</th>
<th>Indirect Costs (a)</th>
<th>Direct Salaries and Wages (b)</th>
<th>Indirect Cost Rates (a + b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Quality and Noise</td>
<td>$ 62,054</td>
<td>$ 225,515</td>
<td>27.48%</td>
</tr>
<tr>
<td>Community Environmental Control</td>
<td>40,032</td>
<td>166,390</td>
<td>30.10%</td>
</tr>
<tr>
<td>Water Quality Management</td>
<td>44,326</td>
<td>166,390</td>
<td>29.04%</td>
</tr>
<tr>
<td>Solid Waste Disposal</td>
<td>121,547</td>
<td>413,973</td>
<td>29.17%</td>
</tr>
<tr>
<td>Parks and Forests</td>
<td>52,350</td>
<td>190,160</td>
<td>27.63%</td>
</tr>
<tr>
<td>Plant Construction</td>
<td>21,012</td>
<td>22,770</td>
<td>88.40%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>355,171</strong></td>
<td><strong>1,188,500</strong></td>
<td></td>
</tr>
</tbody>
</table>

(a) The amounts in this column are from Exhibit E.

(b) The amounts in this column are derived from and must be reconciled to the books and records of the department. Salaries and wages is the preferred base. However, other bases may be used where it results in a more equitable allocation of costs. Generally, the same base should be used for all divisions, however, if approved by the cognizant Federal agency, different bases may be used for one or more of the divisions.

(c) The indirect cost rate for each division/bureau is computed by dividing the indirect costs for each division/bureau by the direct salaries and wages of that division/bureau.
DESCRIPTION OF EXHIBIT F

This Exhibit illustrates the consolidated cost allocation plan. The plan may be used only by local governments. This method is used in lieu of the central service cost allocation plan and department/agency indirect cost proposals. The advantage of this method to local governments is that it is simple and does not require the use of complex cost schedules to support cost allocations. However, the use of this method entails the acceptance of certain conditions which may result in less total recovery of indirect type costs to a local government. If the following conditions are recognized and accepted, a local government may opt to use the method:

a. Only indirect costs of certain central services will be accepted for allocation. The only central services includable under this method are those that demonstrably benefit Federally supported programs and which would have been allocated to Federal awards had the regular methods illustrated in Exhibits A and B through E been used.

b. Central service costs which do not qualify under a. above must be added to the base used to develop the indirect cost rate.

c. All costs of all local departments and agencies (excluding the costs in a. above) must be included in the base used to develop the indirect cost rate except for unallowable items such as interest expense and items that tend to distort the rate computation, such as major subcontracts and items of capital equipment. Indirect type costs incurred at the local department or agency level, including divisional indirect costs, cannot be proposed as indirect costs but must be treated as a base cost in developing the indirect cost rate.

d. Indirect type costs incurred at any level of government may not be charged to a federally supported program as a direct cost; e.g., accounting, purchasing, personnel. However direct charges such as motor pool, reproduction, communications, etc., will be allowed if (1) they are so identified on the consolidated central service plan and if (2) the grantee's system normally provides for directly assessing its departments and agencies for the use of these services using pricing or fee schedules designed to recover the actual costs of services used.
### EXHIBIT F

**SAMPLE FORMAT**

**CONSOLIDATED LOCAL CENTRAL SERVICE COST ALLOCATION PLAN**  
**AND INDIRECT COST PROPOSAL**  
**FOR THE YEAR ENDED JUNE 30, 19**

**Indirect Cost Pool:**

**Central Services Benefiting Federal Programs**

<table>
<thead>
<tr>
<th>Service</th>
<th>Total</th>
<th>Expenditures Not Allowable</th>
<th>Indirect Costs</th>
<th>Salaries &amp; Wages</th>
<th>All Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>City Manager</td>
<td>$25,000</td>
<td></td>
<td>$25,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>City Treasurer's Office (b)</td>
<td>41,000</td>
<td>$1,000</td>
<td>40,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comptroller's Office (b)</td>
<td>48,500</td>
<td>3,500</td>
<td>45,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel Department</td>
<td>30,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building Use Allowance</td>
<td>5,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Indirect Cost Base(s):**

**Central Services Not Benefiting Federal Programs**

<table>
<thead>
<tr>
<th>Service</th>
<th>Total</th>
<th>Expenditures Not Allowable</th>
<th>Indirect Costs</th>
<th>Salaries &amp; Wages</th>
<th>All Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mayor's Office (c)</td>
<td>40,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>City Office (c)</td>
<td>60,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>City Treasurer's Office (b)</td>
<td>34,000</td>
<td>4,000</td>
<td>40,000</td>
<td>20,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Comptroller's Office (b)</td>
<td>126,500</td>
<td>6,500</td>
<td>90,000</td>
<td>30,000</td>
<td></td>
</tr>
</tbody>
</table>

**Costs of All Operating Departments and Agencies**

<table>
<thead>
<tr>
<th>Service</th>
<th>Total</th>
<th>Expenditures Not Allowable</th>
<th>Indirect Costs</th>
<th>Salaries &amp; Wages</th>
<th>All Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dept. of Streets</td>
<td>730,000</td>
<td></td>
<td>150,000</td>
<td>80,000</td>
<td></td>
</tr>
<tr>
<td>Dept. of Health</td>
<td>160,000</td>
<td></td>
<td>120,000</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td>Dept. of Justice</td>
<td>135,000</td>
<td></td>
<td>100,000</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td>Dept. of Environmental Svs.</td>
<td>520,000</td>
<td></td>
<td>90,000</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td>Police Dept.</td>
<td>290,000</td>
<td></td>
<td>150,000</td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td>Fire Dept.</td>
<td>180,000</td>
<td></td>
<td>90,000</td>
<td>40,000</td>
<td></td>
</tr>
</tbody>
</table>

**Totals**                    | $2,475,000 |                           | $1,020,000     | $1,450,000 | $575,000 | $385,000 |

**Indirect Cost Rate Computation**

| Indirect Costs | $145,000 |
| Direct salaries & wages | $375,000 | 16.6% |
Notes to Exhibit F

(a) Expenditures not allowable consist of capital expenditures, contracted construction and flow through monies, etc. These items are excluded from the computation because their inclusion would distort the assessment of indirect costs.

(b) In this illustration, the Treasurer's and Comptroller's office each conduct both direct and indirect activities. For example, the taxing function is contained in both offices (assessing, billing, collecting, etc.). The taxing function is considered a cost of general government and a direct activity. The offices also perform such activities as abstracting, payroll, voucher payments, etc., these activities are considered indirect activities.

(c) Costs of the Mayor's Office and the City Council are stipulated in FMC 741, as costs of general Government and hence, are unallowable as indirect costs; however, these functions benefit from those costs classified as allowable indirect costs and must be included in the base used to calculate the indirect cost rate.

(d) The indirect cost base consists of the costs of all the functions and activities of local governments except (i) central service benefiting Federal programs and (ii) expenditures not allowable. Thus in this method, costs such as the salaries of department and division heads, secretaries, administrative supplies, etc., which could be treated as indirect costs under other methods, must be treated as direct costs and may not be charged to Federal programs as either indirect or direct costs.