



# MENTAL RETARDATION BULLETIN

COMMONWEALTH OF PENNSYLVANIA • DEPARTMENT OF PUBLIC WELFARE

DATE OF ISSUE

August 22, 1985

EFFECTIVE DATE

July 1, 1984

NUMBER

99-85-17

## SUBJECT

County Indirect Cost Allocation Plan Guideline Update - Maintenance  
in Lieu of Rent as a Direct Cost

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## SCOPE

County Commissioners  
County MH/MR Administrators  
Mental Retardation Regional Commissioners  
Mental Health Community Program Managers

## PURPOSE

To announce and clarify Department of Public Welfare guidelines for claiming county indirect costs under the County Cost Allocation Plan Guidelines.

## BACKGROUND

On June 13, 1984, the Department issued County Indirect Cost Allocation Plan Guidelines. Beginning in Fiscal Year 1984-85, counties claiming indirect costs are required to comply with the procedures and requirements of the guidelines.

## Direct and Indirect Costs:

The purpose of the Indirect Cost Allocation Plan Guidelines was to allow counties to charge administrative overhead as an indirect cost to Departmental grant programs. By allowing counties to claim indirect costs, the Department recognized the development of allocation methodologies as a means to facilitate the identification and reporting of these costs.

The Department will limit the amount of indirect costs reimbursed under each grant. However, because the guidelines do not mandate types of costs as being either direct or indirect, counties have the option of reviewing their overhead costs for the purpose of classification. There is no universal rule for classifying certain costs as direct or indirect under every accounting system. Once classified, each item of cost must be treated consistently either as a direct or an indirect cost.

COMMENTS AND QUESTIONS REGARDING THIS BULLETIN SHOULD BE DIRECTED TO:

Office of Fiscal Management (717) 787-3760

Direct costs are those that can be specifically identified. These costs may be charged immediately to the program or to a cost objective used for the accumulation of costs pending distribution in due course to the program. 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.

Costs incurred for a common purpose may be charged to a cost objective used for the accumulation of costs and distributed to the program as a direct cost. These costs must be identified, distributed, and reported on an individual basis according to an underlying allocation rationale. They appear and are treated as direct costs in budgeting and reporting.

All direct and indirect costs must be necessary and reasonable for the administration of the program, conform to any limitations or exclusions as to types or amounts of cost items and be authorized under law and regulations. A supporting allocation rationale and documentation must be maintained for allocated costs.

#### Maintenance in Lieu of Rent:

A problem identified by some counties with a limitation on direct costs concerns occupancy costs for county buildings. Programs housed in county buildings have occupancy related costs as a major component of their indirect costs. Counties unable to recover these costs because of indirect cost limitations have argued for equity with those in noncounty buildings.

The Department reviewed and accepted a proposal to allow a charge for "maintenance in lieu of rent." This is a procedure for computing occupancy related costs and charging them as direct costs.

Attached are two sample "maintenance in lieu of rent" calculations. Basically, this procedure allows for the accumulation of costs related to the occupancy of a building by object of expenditure. These total occupancy costs are then allocated based on square footage and usage. The amount for "maintenance in lieu of rent" is budgeted and reported as a direct occupancy cost for the grant.

As with all direct and indirect costs, these costs must be necessary and reasonable, conform to any limitations or exclusions as to types or amounts of cost items and be authorized under law and regulations. Supporting documentation must be maintained.

#### Two Percent Indirect Cost Limitation:

Beginning in FY 1985-86, a limitation on indirect costs equal to two percent of the MH/MR allocation is in effect for the County MH/MR Program.

Audits:

Section VI of the County Cost Allocation Plan Guidelines delineates the Department's audit requirements. A reorganization within the Department requires a revision to this section. Subsections C and D (page 14 of the Guidelines) should be replaced with the following revisions:

C. Frequency

The first CAP audit shall 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 shall be required on a periodic basis of at least once every five years.

D. Distribution and Review

The audits shall be submitted to the Office of Operations Review. The submission and distribution of audits, preparation of audit responses, audit settlement, and follow-up shall be in accordance with procedures established by the Office of Operations Review.

MAINTENANCE IN LIEU OF RENT SCHEDULE  
STATEMENT OF ANNUAL MAINTENANCE COSTS FOR 1983

I. <u>Description</u>	<u>County Government Center</u>
Employee Services	\$ 192,935
Salaries	59,386
Benefits	
Contracted Services	
Utilities	380,828
Services	96,487
Other Charges	
Materials & Supplies	132,849
Insurance	17,131
Equipment Use Charge	2,375
Building Use Charge	197,303
County-wide Services	<u>40,931</u>
 Total	 <u>\$1,120,225</u>

II.	<u>County Government Center</u>
Usable Square Footage	- 100,410
Total Allocated Costs	\$1,120,225
Cost/Square Footage	\$ 11.16

III.	<u>Mental Health/Mental Retardation Square Footage</u>	=	<u>8,792</u>	=	8.756% of Occupancy
	<u>Total Square Footage Available</u>		100,410		
	<u>Mental Health/Mental Retardation Allocated Cost</u>	=	<u>\$98,088</u>	=	\$11.16
	<u>Mental Health/Mental Retardation Square Footage</u>		8,792		
	Total Cost x Percent of Occupancy	=			
	\$1,120,225 x 8.756%	=	<u>\$98,088.00</u>		

This cost should then be included in the county's administrative costs and apportioned to Mental Health and Mental Retardation according to county policy.