DEFINE A COST ALLOCATION PLAN (CAP) AND AN INDIRECT COST (IDC) RATE PROPOSAL?

- Cost Allocation Plans (CAPs) and Indirect cost rate proposals (IDCs) are the means by which costs are identified in a logical and systematic manner for reimbursement under federal grants and agreements.
- They are documents that identify, accumulate, and distribute allowable direct and indirect costs to benefiting activities.

As defined in 2 CFR Pt. 225, Appendix A, a cost allocation plan means:

- central service cost allocation plan,
- public assistance cost allocation plan (mainly funded by HHS), and
- indirect cost rate proposal.

To recover indirect costs on federal awards, a governmental unit/entity must have either a cost allocation plan, an indirect cost rate proposal, or both. Most of the CAPs and IDCs that APHIS reviews and negotiates from the States will have both a SWCAP and an IDC proposal.

WHAT DEFINES A CENTRAL SERVICE CAP?

Most entities provide certain services on a centralized basis such as:

- motor pools,
- computer centers,
- purchasing, and
- accounting services

Because these centralized costs are not within the scope of the federally supported awards that are performed within the individual operating agency, there must be a process which these centralized service costs can be identified and assigned to the benefited activity or program in a reasonable and consistent basis. This process is called the central services cost allocation plan, otherwise commonly known as the state-wide-cost allocation plan (SWCAP) and is most commonly used by entities.

2 CFR Pt. 225, Appendix C defines the central service cost allocation plan as the documentation identifying, accumulating, and allocating or developing billing rates based on the allowable costs of services provided by a governmental unit on a centralized basis to its departments and agencies. The cost of these services may be allocated or billed to users.

- Entities that wish to charge the costs of support services to federal grants must first prepare a SWCAP to allocate these central service costs to those departments or units they benefit.
- Costs omitted from this plan will not be reimbursed
- Electing to not to seek reimbursement for central services costs should not be include in cost plans.

A State is required to submit a SWCAP to the Health and Human Services (HHS) for each year in which it claims central service costs under Federal awards.

Approved SWCAPs can be found on the HHS, Division of Cost Allocation website as follows:

http://rates.psc.gov/fms/dca/dca_swcap.html

WHAT DEFINES AN INDIRECT COST RATE PROPOSAL?

2 CFR Part 225, Appendix E defines an indirect cost rate proposal as the documentation prepared by the governmental unit or subdivision thereof to substantiate its request for the establishment of an indirect cost rate.

The purpose of an IDC rate proposal is the publish the reimbursement rate or rates negotiated between the federal government and an entity which reflects the indirect costs incurred by the entity in the conduct of Federal programs. IDC rates are necessary because when a grant or agreement is awarded it is unknown what indirect costs will be associated with conducting the program. Indirect expenses such as executive administration, payroll, accounting, human resources, building and equipment depreciation, etc., are difficult to identify directly to the agreement. The IDC rate allows one to calculate the appropriate allocation of indirect costs associated with any one project by applying the negotiated indirect cost rate to the respective base used to develop the rate.

WHAT IS A "BASE" AND HOW IS IT DETERMINED?

Base means the accumulated direct costs (normally either total direct salaries and wages or total direct costs exclusive of any extraordinary or distorting expenditures) used to distribute indirect costs to individual Federal awards. The direct cost base selected should result in each award bearing a fair share of the indirect costs in reasonable relation to the benefits received from the costs.

- Both the direct costs and the indirect costs shall exclude capital expenditures and unallowable costs.
- The distribution base may be total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc.), direct salaries and wages, or another base which results in an equitable distribution.

WHAT IS AN INDIRECT COST RATE?

An indirect cost rate is a device for determining in a reasonable manner the proportion of indirect costs each program should bear. It is the ratio, expressed as a percentage, of the indirect costs to the direct costs. Three different types of indirect cost rates can be approved by the cognizant agency for indirect cost negotiation:

- **Predetermined-** established for current or multiple future period(s) based on current data and are not subject to adjustment, except under very unusual circumstances.
- **Fixed** – established for a current period based on current data with a carry forward adjustment to the rate computation for a subsequent period.
- **Provisional** – temporary rates used for funding and billing indirect costs, pending the establishment of a final rate for a period.

WHAT DO YOU NEED: A CAP, AN IDC RATE PROPOSAL, OR BOTH?

Ask yourself these questions:

- What kind of entity do you represent? For example, if you are a state government, then you develop a statewide cost allocation plan. State government’s are covered by the statewide CAP or (SWCAP) for general administrative costs.

- Where do your administrative/overhead costs come from? For example, if you are a state or local government, do you have your own motor pool, or do you use a central motor pool run by state or local governments?

BENEFITS OF USING CAPs AND IDC RATES

There are several reasons why an entity makes use of this process and develops a cost allocation plan and an indirect cost rate.

- Allows the entity to recover administrative costs
- Can be used to determine costs which allow the entity to charge the user directly.
- Using a fixed cost rate helps the entity to determine how much to charge for its departments for specific service costs.
- manage funds more effectively by identifying all administrative/overhead costs placing the entity in a position for possible additional funding

SUBMISSION REQUIREMENTS FOR CAPs AND IDCs

CAPs and IDCs must be developed and submitted within six months after the close of the entities fiscal year (FY). Most FYs run July1 through June 30 unless an exception of an extension is approved by the cognizant Federal agency.

The following must be included with each proposal submitted to a cognizant agency:

- Proposed rates; including work sheets and other relevant data cross referenced and reconciled to the financial data.
- Allocated central service costs summary table or SWCAP
- Copies of the financial data/financial statements, executive budgets, accounting reports etc., upon which the rate is based.
- Direct base cost amounts incurred under Federal awards broken out between salaries and wages and other direct costs.
- An organizational chart
- Functional statements

- Required certification i.e., certification of indirect costs and certification of central services cost allocation plan

NEGOTIATING RATES AND PLANS

Cognizant Agency Review

Cognizant agency means the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost rate proposals developed under 2 CFR Part 225 on behalf of all Federal agencies. APHIS currently has approximately 10 state indirect cost rate proposals that are submitted for our review due at the end of the calendar year or December 31, XXXX. The cognizant agency is determined by the greater amount of Federal funding awarded from an agency to each state based on the review of each states Federal Schedule of Expenditures.

Negotiating the Rate

Upon receiving the IDC, APHIS has six months to review the IDC for sufficiency, and provide a negotiated rate before the beginning of an entities fiscal year. A major component of the APHIS review process is to determine sufficiency and ensure all IDCs contain the following:

- Supporting data and documentation as required in 2 CFR Part 225 “Submission Requirements.”
- Accuracy.
- Identifying all allowable and unallowable indirect costs is allocated properly.
- Indirect costs are treated consistently as indirect.
- Allocation base methods are appropriate and accurate.
- Proposed bases include all activities that benefit from the indirect costs allocated.
- Are mathematical calculations accurate?

Once the review has been completed and all adjustments and carry forward amounts from the prior year have been included we calculate the rate. A sample of the “Computation of Fixed Indirect Cost Rate” has been included for your information and how we come to calculate a fixed indirect cost rate for negotiation.

Once the negotiated indirect cost rate agreement is reviewed and signed by the Financial Management Division (FMD) Director, we submit a copy to the entity for acceptance of the proposed new rate.   The State must sign and return the indirect cost rate negotiated agreement back to FMD for file retention.