

## **Local Education Agency Indirect Cost Application**

### **Introduction**

The Delaware Department of Education (DDOE) has, in cooperation with the United States Department of Education (USDOE) developed an indirect cost plan for the local educational agencies (LEAs) in Delaware. DDOE has been delegated authority by USDOE to review and approve indirect cost rates submitted by LEAs. In order to recover indirect costs on federal awards, an LEA must have an approved indirect cost rate. A new indirect cost rate must be obtained every fiscal year beginning July 1.

All of the LEAs in Delaware are part of the State of Delaware enterprise accounting system, First State Financials (FSF). LEAs are required to conform to the rules established by the State's Budget and Accounting manual as well as all of the Division of Accounting's directives. These include the classifications of expenditures, appropriate use of funds, and other best practices.

DDOE utilizes a top-down approach in the calculation of the predetermined LEA indirect cost rates. As a brief overview, an automated system categorizes expenditures by object code to determine whether they are direct, indirect or excluded costs. Users enter unallowable costs when prompted. The system generates the restricted and unrestricted rates.

### **Indirect Cost Rate Information:**

An indirect cost rate is a means of determining, in a reasonable manner, the percentage of allowable general management costs that benefit each federal program or activity. Indirect costs are generally administrative costs such as the salaries and expenses for staff engaged in organization-wide (general) activities.

Indirect costs are recovered only to the extent of direct costs incurred. Once a rate is approved, it is applied to the net direct costs expended (i.e. total direct costs less equipment purchases, alterations and renovations, the portion of individual subawards exceeding \$25,000 and pass-through funds). The approved rate is the maximum rate that can be applied, although less than the maximum rate may be used.

Federal law or grant conditions may limit the amount of indirect costs or the indirect cost rate. Grant terms and conditions may also exist for some grants that prohibit any recovery of indirect costs. Recovery of indirect costs on grants is subject to the availability of funds.

To recover indirect costs, the LEA applies the indirect cost rate in effect for the given fiscal year to the grant expenditures during that fiscal year. Indirect cost rates approved for a given fiscal year apply to all disbursements made within that fiscal year that are eligible for earning indirect costs, including any disbursements made on project balances that are brought forward.

### **Approval Process:**

An indirect cost rate approval is issued by the DDOE for a specific fiscal year. LEAs complete their application for an indirect rate in the eGrants system. The application will be open in March of each year. The rate is valid from July 1 to June 30 of the applicable fiscal year.

The sources of information utilized to determine indirect cost rates are the LEA’s official Annual Financial Statement, the detail accounts within that report, and various reports generated from FSF. LEAs are required to classify expenditures uniformly and consistently. Types of expenditures, which are identified as indirect costs, are not also included as direct costs. All expenditures detailed on the Annual Financial Statement have been incurred and records supporting the costs are maintained by the LEA. An approved indirect cost rate is obtained by following the instructions provided to the LEAs.

The financial reports required to complete the indirect proposal are:

- 1) The Annual Financial Statement: The most recently accepted and approved statement will be used. Typically this is the immediate prior fiscal year. For example, FY 18 indirect rate cost applications will include the data from the FY 16 Annual Financial Statement. Specific lines from the Annual Financial Statement that are used include:

<u>Category</u>	<u>Federal Line#</u>
Total Expenditures	1999
Capital Outlay	0170, 0270, 0370, 0470, 0570, 0670, 0770, 0870, 0970, 1270
Facilities Acquisition & Construction	1499
Debt Service	1599
In-State Tuition	0152
Adult Education/Non-Public Schools	1399

- 2) Various reports generated from FSF: LEAs use these reports to identify expenditures associated with unallowable costs and excluded costs such as subawards > \$25,000.

- 3) Organizational Chart -Each LEA will be required to upload a reasonably current copy of their organization chart. The eGrants application supports this requirement.

**Classification of Costs:**

2 CFR 200 requires that all expenditures of a district be included in the preparation of an indirect cost plan. These costs are derived from the general fund, the special revenue funds, and any other applicable funds for the administration of the district. In compliance with federal indirect cost guidelines, specific rules are followed when categorizing expenditures as indirect or base costs. For Delaware, the majority of these rules are built into the account code within the standardized chartfield string structure. The LEA's Annual Financial Statement data, which has data derived from an LEA’s FSF general ledger data, are used to categorize the LEA's expenditures as indirect costs, base costs, or excluded costs. Unallowable costs are determined by the district based on the information noted below.

- 1) Indirect Costs:

Indirect costs consist of agency wide expenditures for general management (administrative) activities that are not readily identifiable with a particular program but are necessary for the

overall operation of the LEA (e.g., accounting, budgeting, payroll preparation, personnel management, purchasing, warehousing, centralized data processing).<sup>1</sup>

2) **Unallowable Costs:**

Per 34 CFR 76.565 (c) and 2 CFR 200.413 (e), unallowable costs include:

- Salaries, employee benefits and other employee costs for the Superintendent or staff member responsible for overall operations, the Assistant Superintendent(s), their respective secretaries and any other applicable direct reports.

- Termination pay for the Superintendent, Assistant Superintendent(s), their respective secretaries and any other applicable direct reports.

- Travel, supplies, rent (prorated if applicable) and utilities for the Superintendent, Assistant Superintendent(s), their respective secretaries and any other applicable direct reports.

- School Board

- Divisional administration that is limited to one component of the subgrantee.

3) **Excluded Costs:**

Certain items of costs are classified as extraordinary or distorting expenditures and are excluded from the computation of the indirect cost rate. Excluded costs include capital outlay (Federal Line (FL) #s 0170, 0270, 0370, 0470, 0570, 0670, 0770, 0870, 0970, 1270), facilities acquisition and construction (FL #1499), debt service (FL #1599), in-state tuition (FL#0152), and adult education programs (FL#1399).

4) **Direct Costs:**

Direct costs are those that can be identified specifically with a particular cost objective. These costs may be charged directly to grants, contracts, or to other programs against which costs are finally assigned. Examples of costs included in the base are those for instructional salaries and benefits, program supplies, contracts for instructional and support services, the majority of plant maintenance and operations, and facilities rents and leases.

**Rate Types: Restricted and Unrestricted:**

1) Restricted indirect cost rates apply to grants and contracts subject to the legislative restrictions which specify that federal funds shall “supplement and in no case supplant” local effort. This means that the funds are for support in addition to state and local funding. Such amounts are intended to supplement but in no way replace, local funds. Most of the federal grants that the LEA obtains through DDOE are of the “Restricted” type. The restricted rate will be limited to a maximum of 8%

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<sup>1</sup> Pursuant to 34 CFR 76.565(c) and 2 CFR 200.413 (e), Costs of the school board, superintendent, and immediate officers (including their assistants) are direct costs.

or the percentage calculated by the formula whichever is less. The restricted indirect cost rate pool (numerator) includes only expenditures of general management costs and fixed charges as defined below:

General Administration Costs:

Costs consist of the salaries and expenses for employees performing accounting, payroll preparation, or personnel management activities. Those activities that are limited to one school, subject, or phase of operation, are not general management costs such as the salaries and expenditures related to the direction and supervision of such functions as instruction, guidance, attendance, transportation, community services, and student services. The costs of these functions are considered direct costs.

Generally, salaries and expenses for auditing, budgeting, payroll, personnel, purchasing, and employee relations are examples of services which typically benefit several activities and programs for which costs may be attributed by means of an indirect cost proposal. For LEA's this would include most of the costs recorded in Support Services/General Administration (function 2300). In theory, all such costs can be charged directly. However, practical limitation and consideration of efficiency in accounting preclude such an approach and therefore these costs are considered indirect.

When calculating a restricted indirect cost rate, the term "General Administration Costs" does not include expenditures for:

1. The governing body (members of the board of education) of the grantee;
2. Compensation of the chief executive officer (Superintendent of a school district) of the grantee and heads of component offices; and
3. The operation of the immediate offices of these officers;

The superintendent's and board of education's salary, benefits, and other expenditures related directly to the operation of the Superintendent's and board of education offices, specifically, are not included in indirect costs and are considered, for rate computation purposes, to be disallowed costs in the calculation of the restricted indirect cost rate.

An individual principal's salary, benefits and expenditures related to the operation of the principal's immediate offices are also not considered indirect costs. These costs are unallowable and are considered to be direct costs for the restricted rate computation purposes.

Fixed charges:

Fixed charges classified as indirect costs are limited to those amounts which are associated with general management costs. The fixed charges can be viewed as appended to those administrative functions, and the classification rules are the same as those applied to salaries.

These expenditures are exclusively identified as:

- a. Employee retirement
- b. Social Security
- c. Pension fund payments
- d. Premium expenditures for:
  - (1) employee insurance
  - (2) liability insurance
- e. Unemployment and workers compensation, and
- f. All similar costs normally considered being employee fringe benefits.

Payments to separating employees for termination benefits and/or unused are treated as indirect costs when computing the Restricted and Unrestricted indirect cost rate with one exception. When computing the Restricted indirect cost rate, unused leave costs to employees who are indirect for the Unrestricted Rate, but direct for the Restricted Rate (i.e. superintendent and their office), are considered direct cost payments for rate calculation purposes only. Payments to separating employees for unused leave are NOT charged as direct costs to any federal awards.

- 2) Unrestricted indirect cost rates may be calculated for use under programs without limitations on indirect costs. This rate may be used for food service reimbursement and other programs that permit the inclusion of plant operation and maintenance as Indirect Costs. Thus, the “Unrestricted Rate” may be used for grants or contracts that do not have the legislative restriction that the funds shall “supplement and in no way supplant” local effort. Non-restricted rates will be limited to a maximum of 16% or the percentage calculated by the formula whichever is less.

### **CALCULATING THE RATE:**

The indirect cost rate is calculated by dividing the **Total Indirect Costs** by the sum of the **Unallowable Costs** and **Direct Costs** or base costs. Excluded costs are not included in the calculation.

As noted above, the proposal is based on total expenditures of all General Fund and Special Revenue Funds and can be traced to those accounts of record that support these amounts.

DDOE’s Indirect Cost Rate Application system generates a reconciliation to the total LEA's expenditures using the same basic format as appears on the Annual Financial Statement for the immediate prior year. The following steps outline the process:

- 1) Each year at the beginning of March, DDOE creates a file from the Annual Financial Statement database to upload to the eGrants system. The file contains, by LEA for each class of expenditure, Excluded costs as defined above and Total Expenditures.
- 2) DDOE notifies the LEAs that the Indirect Cost Rate application is available to apply for the new fiscal year’s rate.
- 3) The LEA enters, as prompted the total of their unallowable costs as defined above and the amount of subagreements > \$25,000.
- 4) The system will auto-calculate Indirect Costs by subtracting any Unallowed Costs from the Total Expenditures for function 2300, Support Services/General Administration and function 2800, Support Services, Other.
- 5) The system will calculate Direct Costs by subtracting any Excluded Costs from Total Expenditures for all other functions.
- 6) The system calculates the Restricted and Unrestricted Rates by dividing the Indirect Cost total (numerator) by the sum of the Unallowed Costs and the Direct Costs (denominator). For the restricted rate, the calculation includes function 2600, Support Services/Operations and Plant Maintenance in the Direct Costs total and for the Unrestricted Rate it is included in the Indirect Costs or the numerator.
- 7) The LEA is required to attach a reasonably current organizational chart.

- 8) The Chief School Fiscal Officer and the Chief School Finance Office must acknowledge and certify in the program the following assurances:
- The information contained herein has been prepared in accordance with the instructions issued by the Delaware Department of Education, conforms to Title 34, 2 CFR part 225, EDGAR, and is correct to the best of my knowledge and belief.
  - No costs other than those incurred by the LEA have been included in the restricted indirect cost rate application.
  - The same costs that have been treated as indirect costs have not been and will not be claimed as direct costs, and similar types of costs have been accorded consistent treatment.
  - All expenditures detailed in the application have been made, and records supporting them have been maintained and are available for audit.
  - All data in this application are referenced to the State of Delaware Annual Financial Statement for the previous fiscal year ending June 30.
- 9) After the LEA business manager reviews and approves, workflow notifies the LEA's superintendent, who also must review and approve the proposal.
- 10) Workflow notifies the assigned DOE education associate that the proposal is ready to be reviewed and approved at the SEA. The education associate ensures that unallowable costs and subaward agreements >\$25,000 have been included and that the rate is calculating correctly.
- 11) The education associate approves the proposal and workflow notifies the Director of Finance the proposal is ready for final approval.
- 12) Workflow will then notify the LEA that the plan has been approved and the LEA can review their approved rate online.