

Wisconsin Department of Public Instruction

Local Educational Agency

2007-08 Indirect Cost Plan

Summary

P.O. Box 7841, Madison, Wisconsin 53707

2007-08 Indirect Cost Plan Summary

Office of Management and Budget (OMB) Circular A-87 provides that federal programs have the responsibility to bear their fair share of indirect costs. Local educational agencies (LEAs) are required to have an approved indirect cost rate in effect in order to recover any indirect costs related to federal grants and contracts. If a LEA does not wish to recover any indirect costs for federal grants and contracts, an indirect cost allocation plan is not necessary.

The indirect cost rate is a device for determining, in a reasonable manner, the proportion of indirect cost each program should bear. It is the ratio of the total indirect costs to a direct cost base, such as salaries and wages. Wisconsin LEAs use the fixed with carry-forward rate for indirect costs.

Indirect costs are those costs that are not readily identified with the activities funded by the federal grant or contract but are nevertheless incurred for the joint benefit of those activities and other activities and programs of the organization. Examples of such costs are accounting, auditing, payroll, personnel, budgeting, purchasing and maintenance and operation of plant.

Direct costs are costs that can be identified with a particular cost objective. Expenditures for fiscal year 2005-06 are used to compute the indirect rate of fiscal year 2007-08. Some expenditures are excluded from the indirect cost computation, such as those that are one-time in nature or tend to distort normal annual operating expenditures. Also, some expenditures are unallowable because they are unacceptable as applied to federal grants and contracts. Examples include bad debts, donations, entertainment, fines and interest.

Two indirect cost rates are generated: Restricted and unrestricted. The restricted indirect cost rate is a special rate developed for federal programs that allow supplementing, but not supplanting, of state and local funds. This means that only selective administrative costs, not maintenance and operation of plant costs, are eligible to be included as indirect costs.

The unrestricted indirect cost rate allows full recovery of indirect cost. The rate includes selective administration and maintenance and operation of plant expenditures. Since federal programs administered by DPI do not permit supplanting of nonfederal funds, LEAs must use the restricted indirect cost rate.

Adjustments may be made from areas of direct cost to indirect cost and are reported on form PI-1161. After receipt of this form by DPI, LEAs will receive an indirect cost rate approval letter from DPI which will establish appropriate rates for the current fiscal year.

New this year:

1. Major Sub-Awards in excess of \$25,000:

It is the policy of the Federal government that all expenditures for sub-awards over the first \$25,000 be excluded from the calculation of indirect cost rates. For this exclusion, the first \$25,000 of the contract is included; costs in excess of \$25,000 are excluded. To be consistent, if any of these major subcontracts relate to a federal grant, indirect should be charged only on the first \$25,000 of the contract. Further clarification of this policy states that the exclusion covers all of the expenditures for a sub-award, if the award is for more than one year. Any adjustments for costs exceeding \$25,000 must be reported on form PI-1161.

2. Termination Leave Benefits :

Payments to separating employees for unused leave are chargeable to Federal programs only as indirect costs. Therefore, any payments made to former employees either upon separation or in future years must be considered indirect costs for purposes of calculating the district's indirect cost rate. For example, a District employee who retires and pursuant to the District's compensation policies pays for their health insurance premiums after retirement must classify those costs as indirect. WUFAR guidelines require that Districts who are funding post-employment benefits on a pay-as-you-go basis classify health insurance expenditures for former employees to Function 290000. Any such costs must be shown as adjustments on form PI-1161. However, districts which are funding other post-employment benefits pursuant to an actuarial determination require no adjustment on form PI-1161. Lump-sum cash payments for unused vacation or sick

leave upon termination of employment should be also be identified as an adjustment on Form PI-1161 if charged to Function 290000 or to the function where other salary and benefits were charged for the employee.

The approved rate should be multiplied by the amount of direct cost expense. The resulting indirect cost should be applied to the final claim for each federal program.

The due date for submission of indirect cost rate adjustments (form PI-1161) and indirect cost proposals for fiscal year 2007-08 is January 11, 2008.

If you have questions concerning indirect cost, please call the auditing team at (608) 267-7882.