

# Local Government (LG) GATA Webinar

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# Objectives

- ▶ Increase understanding of how 2 CFR 200 applies to Local Governments
- ▶ Emphasize requirements unique to Local Governments
  - Section 416: Cost Allocation Plans and Indirect Cost Rate Proposals for Local Governments
  - Appendix V: State/Local Government-wide Central Service Cost Allocation Plans
  - Indirect cost rate requirements
- ▶ GATA submission requirements for Local Governments
- ▶ Local Governments are unique – GATU will provide more training specific to this group

# Local Government Definition

## 2 CFR 200.64

*Local government* means any unit of government within a state, including a:

- (a) County;
- (b) Borough;
- (c) Municipality;
- (d) City;
- (e) Town;
- (f) Township;
- (g) Parish;
- (h) Local public authority, including any public housing agency under the United States Housing Act of 1937;

- (i) Special district;
- (j) School district;
- (k) Intrastate district;
- (l) Council of governments, whether or not incorporated as a nonprofit corporation under state law; and
- (m) Any other agency or instrumentality of a multi-, regional, or intra-state or local government.

# Requirements Unique to Local Governments

- ▶ Unique requirements for Local Governments center around indirect costs
- ▶ Indirect cost requirements have a ripple effect on other items such as:
  - Registration and prequalification
  - Fiscal and administrative risk assessment
  - Parent / child relationships
  - Illinois Stop Pay List enforcement
- ▶ All other federal Uniform Guidance requirements are the same for all grantees

# Uniform Guidance Citations Specific to Local Governments

- ▶ §200.416 Cost allocation plans and indirect cost proposals
- ▶ §200.417 Interagency service
- ▶ §200.418 Costs incurred by states and local governments
- ▶ Appendix V to Part 200 — State/Local Governmentwide Central Service Cost Allocation Plans
- ▶ Appendix VII to Part 200 — States and Local Government and Indian Tribe Indirect Cost Proposals

# Options for Local Government

- ▶ Local Governments can elect to negotiate indirect cost rates on an entity wide basis or by individual department or division
  - If the election is by department or division, each will be treated as a separate entity for negotiation of indirect cost rates
- ▶ Local Governments have the option to select the De Minimis Rate, if eligible, or negotiate a rate by department or division

## §200.416 Cost Allocation Plans and Indirect Cost Proposals

- ▶ For states and local governments, certain services (e.g., motor pools, computer centers, purchasing, accounting) are provided to operating agencies on a centralized basis
- ▶ Since awards are performed within the individual operating agencies, there needs to be a process to identify central service costs and assign those costs to benefitted activities on a reasonable and consistent basis
- ▶ A Central Service Cost Allocation Plan provides that process

# §200.416 Cost Allocation Plans and Indirect Cost Proposals

- ▶ Individual operating agencies (governmental department or division), normally charge awards for indirect costs through an indirect cost rate
- ▶ A separate indirect cost rate proposal for each operating department or division is usually necessary to claim indirect costs under awards



# §200.416 Cost Allocation Plans and Indirect Cost Proposals

- ▶ Indirect costs include:
  - The indirect costs originating in each department or division of the governmental unit carrying out awards, and
  - The costs of central governmental services distributed through the central service cost allocation plan and not otherwise treated as direct costs
- ▶ Requirements for developing and submitting cost allocation plans (for central service costs and indirect cost rate proposals) are contained in appendices V and VII to 2 CFR 200

# Appendix V State/Local Governmentwide Central Service Cost Allocation Plans

- ▶ As stated in 200.416, most governmental units provide certain services (e.g., motor pools, computer centers, purchasing, accounting) to operating agencies on a centralized basis
- ▶ Because awards are performed within individual operating department or division, a process is needed for central service costs to be identified and assigned to benefitted activities on a reasonable and consistent basis
- ▶ The process to distribute costs included in the plan should include formal accounting and other records that will support the propriety of the costs assigned to Federal awards

# Appendix V State/Local Governmentwide Central Service Cost Allocation Plans

- ▶ Allocated Central Services – central services that benefit operating agencies but are not billed to the agencies on a fee basis.
  - Costs are allocated to benefitted agencies on some reasonable basis
  - Examples: general accounting, personnel administration, purchasing
- ▶ Billed Central Services – central services that are billed to benefitted agencies or programs on an individual fee basis
  - Examples: computer services, transportation services, insurance, and fringe benefits

# Scope of the Central Service Cost Allocation Plans

- ▶ Central service cost allocation plan must be documented and include all central service costs that will be claimed (both billed and allocated) under awards
- ▶ Costs of central services omitted from the plan will not be reimbursed
- ▶ Each major local government (defined as those receiving more than \$100 million in direct federal funding) is required to submit an annual plan to its cognizant agency for indirect costs

# Submission Requirements

- ▶ All other local governments claiming central service costs must develop a plan in accordance with the requirements described in Part V and maintain the plan and related supporting documentation for audit
  - These local governments are not required to submit their plans for Federal approval unless they are specifically requested to do so by the cognizant agency for indirect costs
- ▶ If the local government only receives funds as a subrecipient, the pass-through entity will be responsible for monitoring the subrecipient's plan

# Documentation Requirements for Submitted Plans

- ▶ Organization chart sufficiently detailed so show operations, including the central service activities, whether or not they are receiving central services
- ▶ Comprehensive Annual Financial Report (or copy of the Executive Budget, if budgeted cost are being proposed) to support the allowable costs of each central service activity included in the plan
- ▶ Certification that the plan was prepared in accordance with Part V, contains only allowable costs, and was prepared to treat similar costs consistently among the various state and federal awards and between Federal/State and non-federal/state award activities

# Include for Each Allocated Central Service

- ▶ Description of the service
- ▶ Identify unit rendering the service
- ▶ Operating departments or divisions receiving the service
- ▶ Items of expense included in the cost of the service
- ▶ Method to distribute the cost of the service to benefitted departments or divisions
- ▶ A summary schedule showing allocation of each service to the specific divisions or departments
- ▶ If self-insurance funds or fringe benefits costs are treated as allocated (rather than billed) central services, additional documentation is required

# Documentation Requirements for Billed Services

- ▶ The following Information must be provided for all billed central services including internal service funds, self-insurance funds, and fringe benefit funds with an operating budget of \$5 million or more:
  - Balance sheet for each fund
  - Revenue/expenses statement, with revenues broken out by source (e.g., regular billings, interest earned)
  - Listing of all non-operating transfers (GAAP) into and out of the fund



# Documentation Requirements for Billed Services (continued)

- ▶ Description of procedures (methodology) to charge costs of services to users, including how billing rates are determined
- ▶ Schedule of current rates
- ▶ Schedule comparing total revenues (including imputed revenues) generated by the service to the allowable costs of the service
- ▶ Explanation for handling variances

# Documentation Requirements for Revenues / Expenses

- ▶ Revenues must include all revenues generated by the service, including unbilled and uncollected revenues
- ▶ If some users were not billed for the services (or were not billed at the full rate for that class of users), a schedule showing the full imputed revenues associated with these users must be provided
  - Break out expenses by object cost categories (e.g., salaries, supplies)

# Documentation Requirements for Self-insurance Funds

- ▶ Fund balance sheet, a statement of revenue and expenses including a summary of billings and claims paid by department/division
- ▶ List of all non-operating transfers into and out of the fund
- ▶ Type(s) of risk(s) covered by the fund (e.g., automobile liability, workers' compensation)
- ▶ Explanation of how fund contributions are determined, including a copy of the current actuarial report (with actuarial assumptions)

# Documentation Requirements for Self-insurance Funds (continued)

- ▶ If contributions are determined on an actuarial basis, include a description of procedures used to charge or allocate fund contributions to benefitted activities
- ▶ Identify and explain reserve levels in excess of claims
  - Submitted and adjudicated but not paid,
  - Submitted but not adjudicated, and
  - Incurred but not submitted

# Documentation Requirements for Fringe Benefits

- ▶ Plan must include a list of fringe benefits provided to covered employees
- ▶ Overall annual cost of each type of benefit
- ▶ Current fringe benefit policies and procedures used to charge or allocate the costs of the benefits to benefitted activities

# Documentation Requirements for Pension and Post-retirement Health Insurance Plans

- ▶ Governmental unit's funding policies (e.g., legislative bills, trust agreements, or state-mandated contribution rules), if different from actuarially determined rates
- ▶ Pension plan's costs accrued for the year
- ▶ Amount funded and date(s) of funding
- ▶ Copy of the current actuarial report (including the actuarial assumptions)
- ▶ Plan trustee's report, and
- ▶ Activity schedule showing the value of the interest cost associated with late funding

# Carry-Forward Adjustments of Allocated Central Service Costs

- ▶ Adjustments for negotiated plans that are later determined to be unallowable
- ▶ Billed Central Service Activities must separately account for all revenues, including imputed revenue generated by the service, expenses incurred to furnish the service, and profit/loss
- ▶ Working Capital Reserves Internal service funds are dependent on a reasonable level of working capital reserves to operate from one billing cycle to the next.
  - In addition to full recovery of cost, a reserve as part of retained earnings of up to 60 calendar days cash expenses for normal operating costs is considered reasonable

# Carry-Forward Adjustments of Allocated Central Service Costs

- ▶ Allocated central service costs are usually negotiated and approved for a future year on a “Fixed with carry-forward” basis, including an estimate of allocable central services cost
- ▶ At least annually, an adjustment is made to account for actual allowable costs for services
  - Difference is carried and used as an adjustment to the fixed amounts established for a later year
  - Applies to the fixed amounts in an approved plan
- ▶ Carry-forward adjustment is not permitted for a central service activity not included in the plan
- ▶ Unallowable costs must be reimbursed immediately



# Carry-Forward Adjustments of Billed Central Services

- ▶ Billing rates used to charge state and federal awards are based on estimates
- ▶ A comparison of the revenue generated by each billed service (including total revenues regardless if billed or collected) to the actual allowable costs of each service will be made at least annually
- ▶ Adjustment will be made for the difference between revenue and allowable costs

# Carry-Forward Adjustments of Billed Central Services

Adjustments will be made through one of the following methods:

- ▶ Cash refund including earned and imputed interest
- ▶ Credits to amounts charged to individual programs
- ▶ Adjustments to future billing rates

If total adjustment amount for a particular service (Federal and non-Federal) exceeds \$500,000, adjustment method(s) must be in accordance with cognizant agency claims collection regulations

# Indirect Cost Rates For Local Governments

# Local Government Indirect Cost Rates – Simplified Allocation

- ▶ Where a governmental unit's department or agency has only one major function, or where all its major functions benefit from the indirect costs to approximately the same degree, the allocation of indirect costs and the computation of an indirect cost rate may be accomplished through simplified allocation procedures

# Local Government Indirect Cost Rates – Not to Simple Allocation

- ▶ Where a governmental unit's department or division has several major functions which benefit from its indirect costs in varying degrees, the allocation of indirect costs may require the accumulation of such costs into separate cost groupings which are allocated individually to benefitted functions through a base which best measures the relative degree of benefit
- ▶ The indirect costs allocated to each function are then distributed to individual awards and other activities included in that function by means of an indirect cost rate(s)

# Specific Methods for Allocation of Indirect Cost

Local Governments have specific methods for allocating indirect costs and computing indirect cost rates including:

- ▶ Simplified Method
- ▶ Multiple Allocation Base Method
- ▶ Special Rates
- ▶ Cost Allocation Plans

# Simplified Method

Where a non-Federal entity's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished by

- ▶ Classifying the non-Federal entity's total costs for the base period as either direct or indirect, and
- ▶ Dividing total allowable indirect costs (net of applicable credits) by an equitable distribution base

# Multiple Allocation Base Method

- ▶ Where a non-Federal entity's indirect costs benefit its major functions in varying degrees, such costs must be accumulated into separate cost groupings
- ▶ Each grouping must be allocated individually to benefitted functions by means of a base which best measures the relative benefits
- ▶ Cost groupings should be established to permit the allocation of each grouping on the basis of benefits provided to the major functions



# Multiple Allocation Base Method

- ▶ Each grouping should constitute a pool of expenses that are of like character in terms of the functions they benefit and the allocation base which best measures the relative benefits provided to each function
- ▶ Number of separate groupings should be limited taking into consideration the materiality of the amounts involved and the degree of precision needed
- ▶ Typical cost grouping would be multiple facilities, accounting, administrative and personnel

# Multiple Allocation Base Method

- ▶ When expenses in a group are more general, the allocation should utilize a base which produces results equitable to both the awarding agency and the governmental unit
- ▶ In general, any cost element or related factor associated with the governmental unit's activities is potentially adaptable for use as an allocation base provided:
  - It can be readily expressed in terms of dollars or other quantitative measures (e.g., total direct costs, direct salaries and wages, staff hours applied, square feet used, hours of usage, number of documents processed, population served), and
  - It is common to the benefitted functions during the base period

# Multiple Allocation Base Method

- ▶ Except where a special indirect cost rate(s) is required, separate groupings of indirect costs allocated to each major function must be aggregated and treated as a common pool for that function
- ▶ Costs in the common pool must be distributed to individual awards included in that function by use of a single indirect cost rate

# Multiple Allocation Base Method

- ▶ The distribution base used in computing the indirect cost rate for each function may be:
  - Total direct costs (excluding capital expenditures and other distorting items such as pass-through funds, subawards in excess of \$25,000, participant support costs),
  - Direct salaries and wages, or
  - Another base which results in an equitable distribution
- ▶ An indirect cost rate should be developed for each separate indirect cost pool
- ▶ The rate in each case should be stated as the percentage relationship between the particular indirect cost pool and the distribution base identified with that pool

# Special Indirect Cost Rates

- ▶ In some instances, a single indirect cost rate for all activities of a department or agency may not be appropriate
- ▶ Different factors may substantially affect the indirect costs applicable to a particular program or group of programs (e.g., physical location of the work, the nature of the facilities, level of administrative support required)
- ▶ (Refer to 2 CFR 200, Appendix VII, paragraph C.4. for requirements for a separate indirect cost rate.)

# Cost Allocation Plans (CAP)

- ▶ The cognizant agency for indirect costs may require a State or local government unit's department or agency to prepare a CAP instead of an ICRP
  - Requirement occurs infrequently when the nature of the awards makes it impracticable to use of a rate to recover indirect costs
- ▶ A required CAP includes narrative descriptions of methods the department or agency uses to allocate indirect costs to programs, awards, or other cost objectives
- ▶ Like an ICRP, CAP must be submitted to the cognizant agency for indirect cost for review, negotiation, and approval, or retained for audit

# Submission of Indirect Cost Rate Proposals

- ▶ All departments or agencies of the governmental unit that want to claim indirect costs under awards must prepare an indirect cost rate proposal and related documentation to support those costs
- ▶ The proposal and related documentation must be retained for audit in accordance with the records retention requirements contained in §200.333 Retention Requirements for Records

# Submission of Indirect Cost Rate Proposals

- ▶ Governmental department or division unit that receives more than \$35 million in direct Federal funding – must submit its indirect cost rate proposal to its Federal cognizant agency for indirect costs
- ▶ A governmental department or division unit that receives less than \$35 million – must develop and maintain supporting documentation for audit
- ▶ Non-Federal entities that only receive funds as a subrecipient – pass-through entity is responsible for negotiating and/or monitoring the subrecipient's indirect costs



# Submission of Indirect Cost Rate Proposals

- ▶ Indirect cost proposals must be developed (and, when required, submitted) within six (6) months after the close of the governmental unit's fiscal year
- ▶ An exception to this due date may be approved by the cognizant agency for indirect costs

# Documentation of Indirect Costs Rate Proposals

- ▶ Rates proposed, including subsidiary work sheets and other relevant data, cross referenced and reconciled to the financial data
- ▶ Allocated central service costs supported by the summary table included in the approved central service cost allocation plan
- ▶ Copy of financial data (e.g., financial statements, comprehensive annual financial report, executive budgets, accounting reports) upon which the rate is based
- ▶ Adjustments resulting from the use of unaudited data will be recognized, where appropriate, by the cognizant agency for indirect costs in a subsequent proposal

# Documentation of Indirect Cost Rate Proposals Continued

- ▶ Approximate amount of direct base costs incurred under awards\*
  - Costs should be broken out between salaries and wages and other direct costs
- ▶ Chart of the organizational structure\* during the period for which the proposal applies
- ▶ Functional statement(s)\* noting the duties and/or responsibilities of all units that comprise the agency
- ▶ Required certification

(\*Submitted once; subsequent proposals will include revisions only)

# Indirect Cost Allocations Not Using Rates

- ▶ In certain situations, governmental departments or agencies (components of the governmental unit), may be required to develop a cost allocation plan to distribute indirect and, in some cases, direct costs to specific funding sources
- ▶ In these cases, a narrative cost allocation methodology should be developed, documented, maintained for audit, or submitted, as appropriate, to the cognizant agency for indirect costs for review, negotiation, and approval

# GATA Submission Requirements for Local Government

# GATA Submission Requirements

- ▶ With Federal approval, a GATA pilot was implemented incorporating subrecipient monitoring with the centralization of indirect cost rate negotiation
  - Grantees/subrecipients that receive direct Federal funding are required to submit their central services cost allocation plans and indirect cost rate for a monitoring review
- ▶ The pilot removes duplication of effort as one monitoring review addresses both the central services cost allocation plan and the indirect cost rate

# Pilot Scope and Benefits

- ▶ Under GATA's pilot for monitoring central services cost allocation plans and indirect cost rates, the following steps are performed:
  - Submission requirements for the CSCAP and the indirect cost rate are collected and reviewed
  - Allocation methodology is reviewed for reasonableness and consistent application
  - Costs are reviewed for allowability
  - Mathematical accuracy is verified
- ▶ This approach allows state agencies to apply rate(s) without performing additional monitoring activities to ensure the allocation methodologies are in compliance with federal rules

# Monitoring Pilot Results

- ▶ Pilot efforts have identified instances of local government central services cost allocation plan issues including incomplete submissions, lack of documentation, mathematical errors, unallowable costs and allocation methods that do not meet federal standards
- ▶ Many of these plans were prepared by accounting and consulting firms specializing in indirect cost rate negotiation
- ▶ If these errors and omissions are identified in the Single Audit, it will result in questioned costs
- ▶ Results justify continuance of the pilot



# Future Policy Decisions

- ▶ GATU and the On-site Monitoring workgroup are establishing conditions which will limit monitoring activities including:
  - No issues identified in the monitoring review of the Central Services Cost Allocation Plan or the Indirect Cost Rate Plan
  - No material adjustments
  - Results of a Single Audit or On-Site Review (no findings regarding cost principles)
  - No changes to the methodologies previously applied
  - No major changes in staff or consultants
  - No changes in IT systems

# Local Governments are Unique

- ▶ Illinois' Local Government structure is unique
- ▶ Federal Uniform Guidance and GATA requirement are basically the same for all grantees – with the exception of indirect costs
- ▶ Indirect Costs and Central Services Cost Allocation Plans are very technical areas
- ▶ If your Local Government needs assistance in this highly specialized area, consider the GATA Fiscal Agent Framework

# Questions?

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