

Purpose of the Indirect Cost Rate Proposal

Appendix E to Part 225, Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87) addresses the preparation of indirect cost rate proposals. The Appendix states:

Indirect costs are those that have been incurred for common or joint purposes. These costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved. After direct costs have been determined and assigned directly to Federal awards and other activities as appropriate, indirect costs are those remaining to be allocated to benefitted cost objectives. A cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a direct cost.

Indirect costs include the indirect costs originating in each department or agency of the governmental unit carrying out the Federal awards and the costs of central government services distributed through the central service cost allocation plan and not otherwise treated as direct costs.

Indirect costs are normally charged to Federal awards by use of an indirect cost rate...

All departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs...

The City of Bell ("The City" "Bell") desires to claim indirect costs under Federal awards. This indirect cost rate proposal and related documentation support those costs.

Indirect Costs Considered in the Indirect Cost Rate Proposal

The indirect costs considered in this indirect cost rate proposal are the costs of central government services and executive level support distributed through the central service cost allocation plan.

Allocation Procedures for the Indirect Cost Rate

Appendix E of OMB Circular A-87 addresses the allocation procedures that may be used for the computation of indirect cost rates. The Appendix states:

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 described in the appendix...

Where a grantee agency's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished by classifying the grantee agency's total costs for the base period as either direct or indirect, and dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate which is used to distribute indirect costs to individual Federal awards. The rate should be expressed as the percentage which the total amount of allowable costs bears to the base selected...

Both the direct costs and the indirect costs shall exclude capital expenditures and unallowable costs. However, unallowable costs must be included in the direct costs if they represent activities to which indirect costs are properly allocable...

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...

Bell uses the simplified rate allocation method - The operating departments of Bell benefit from the indirect costs to approximately the same degree. Accordingly, the simplified rate allocation method has been used to calculate the indirect cost rate. The City uses total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, major subcontracts, etc.) as the distribution base - this distribution base results in an equitable distribution.

Indirect Cost Rate Excludes Unallowable Costs

The only indirect costs considered in this indirect cost rate proposal are the costs of central government services and executive level support distributed through the central service cost allocation plan. The central service cost allocation plan excludes unallowable costs as defined in Appendix B of OMB A-87 (e.g. equipment and capital expenditures, bad debts, lobbying, etc.).

The indirect cost rate should be considered distinct from any benefit rates that may be applied by the City for services charged directly to a Federal program.

Reconciliation of Audited Financial Statements to General Ledger Used for Cost Allocation

The cost allocation plan and indirect cost rate proposal allocate the actual costs of central service units and executive level support to operating units. The actual costs allocated in this cost allocation plan and indirect cost rate proposal are derived from the general ledger. The general ledger has been reconciled to the City's Comprehensive Annual Financial Report for the Year Ended June 30, 2013. Reconciliation information is included in Attachment C of this plan.