

Local Educational Agency

Federal Indirect Cost Rate Proposal

Organization: Iowa Department of Education

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IOWA DEPARTMENT OF EDUCATION

Local Education Agency Federal Indirect Cost Rate Proposal

Introduction

The Iowa Department of Education (Department), in cooperation with the U.S. Department of Education (ED) has developed an indirect cost proposal to be used by its Local Education Agencies (LEAs) and its Area Education Agencies (AEAs). Iowa has 338 LEAs and 9 AEAs during the fiscal year ending June 30, 2015. Iowa's charter schools are required to be part of an LEA, so do not have a separate rate, and would use the LEA rate. The Department has chosen to follow the simplified method of calculating indirect cost rates for its LEAs and AEAs. Individual projects and activities benefit from the indirect costs to approximately the same degree. The allocation of indirect costs will be accomplished by classifying each agency's costs as direct, indirect, or excluded and unallowed, and then dividing the allowable indirect costs by the modified total direct costs. Total costs will be reduced to reflect expenditures that benefited other LEAs or AEAs and that have been offset by reimbursement from other LEAs or AEAs. This approach will apply to both restricted and unrestricted indirect cost rates. The information necessary to complete the calculation of indirect cost rates will be taken from each agency's completed Certified Annual Report. The following describes the methodology to be employed in the calculation of indirect cost rates.

General Overview

Data for the calculation of indirect cost rates will be collected annually and uniformly. Iowa public LEAs and AEAs are required to follow financial accounting practices as promulgated in *Uniform Financial Accounting for Iowa LEAs and AEAs*, which is based on the federal Handbook, *Financial Accounting for Local and State School Systems: 2009 Edition*, and generally accepted accounting principles (GAAP) as promulgated by the governmental accounting standards board (GASB). The Iowa Certified Annual Report (CAR) is prepared by each LEA and AEA and collected by the Department under the authority of Iowa Code chapters 291 and 256. A CAR is an upload of the chart of accounts to the state showing detailed financial information derived from the fiscal records of the LEA or AEA for the fiscal year ended June 30. The CAR must be completed, finalized and submitted to the state no later than September 15 of the same calendar year.

Each CAR is accompanied by a certification that the data in the CAR are true, correct, complete, and prepared in compliance with state and federal statutes. The certification further requires an affirmation that "no unallowed costs have been included with allowed costs in figures used to calculate restricted indirect cost rates."

Cost data used in the calculation of indirect costs will be taken from the General Fund detail by function and object on the CAR. Function describes the activity for which a service or object is required. Object describes the type of service or commodity purchased. In accordance with OMB Circular A-87, costs for worker compensation, unemployment, severance pay, retirement incentives, and insurance have been reclassified as general administration costs, which are included as indirect costs.

Revenue data used to offset costs will be taken from the General Fund detail by source on the CAR. Cost will be adjusted for reimbursements received from other LEAs or AEAs for shared personnel contracts, tuition, transportation, and other services such as data processing, purchasing, maintenance, cleaning, and consulting. This adjustment is necessary to accurately reflect the cost incurred by each LEA and AEA. To not make the adjustment would result in a double accounting of costs, as the service would appear as an expenditure of funds in both the providing and the benefiting LEA or AEA.

The subaward treatment of the first \$25,000 does not apply to purchased services, such as tuition payments, which are generally a rate per student times the number of students. Based on the review, and a conference call with John Maisitis, Indirect Cost Group, ED, it was determined these are purchased services, and accordingly exempt from the subawards \$25,000 rule. These purchased services are included in the base of the paying district, but excluded from the base in the receiving district. Removal of the subawards exceeding \$25,000 did not impact the indirect cost rate calculated for the districts. Since subawards for Iowa districts are minimal, subawards will remain in the base for the indirect cost rate calculation. However, the Department will communicate to the districts that only the first \$25,000 of subawards is included when calculating indirect costs charged to each grant using the indirect cost rate provided by the Department.

Classification of Costs

Costs reported on the CAR are classified as direct, indirect, or excluded and unallowed. The following matrix (Table A) shows classified costs by function and object.

Table A
Cost Classification Matrix

Function	Salaries 100-199	Benefits 200-299	Purchase d Services 300-599	Supplies 600-699 (not 630- 639)	Food Costs (630-639)	Property 700-799	Other Objects 800-899	Other Uses 900-999
1000 Instruction	Direct	Direct	Direct	Direct	Excluded	Excluded	Direct	Excluded
2100 Student Services	Direct	Direct	Direct	Direct	Excluded	Excluded	Direct	Excluded
2200 Staff Services	Direct	Direct	Direct	Direct	Excluded	Excluded	Direct	Excluded
2310 Board Services	Direct	Direct	Direct	Direct	Excluded	Excluded	Excluded	Excluded
2320 Executive Admin Services	Direct	Direct	Direct	Direct	Excluded	Excluded	Direct	Excluded
2330 Special Area Services	Direct	Direct	Direct	Direct	Excluded	Excluded	Direct	Excluded
2400 Building Admin Services	Direct	Direct	Direct	Direct	Excluded	Excluded	Direct	Excluded
2500-2539; 2570-2599 Business Services	Indirect- Restricted	Indirect- Restrict ed	Indirect- Restricted	Indirect- Restrict ed	Excluded	Excluded	Indirect- Restrict ed	Excluded
2540, 2560 Business Services	Direct	Direct	Direct	Direct	Excluded	Excluded	Direct	Excluded
2600 Operations & Maintenance	Indirect- Unrestricted	Indirect- Unrestrict ed	Indirect- Unrestrict ed	Indirect- Unrestrict ed	Excluded	Excluded	Indirect- Unrestrict ed	Excluded
2700 Student Transportati on	Direct	Direct	Direct	Direct	Excluded	Excluded	Direct	Excluded
2900 Other Support	Indirect- Restricted	Indirect- Restrict ed	Indirect- Restricted	Indirect- Restrict ed	Excluded	Excluded	Indirect- Restrict ed	Excluded
3100 Food Service	Direct	Direct	Direct	Direct	Excluded	Excluded	Direct	Excluded
3200 Enterprise Operations	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded
3300-3400 Community Services	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded
4000 Facility Acquisition	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded
5000 Other Uses	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded	Excluded

“Direct costs” are allowable costs of the LEA and AEA that benefit particular functions or programs. Direct costs can be identified specifically with a particular final cost objective. Examples of direct costs include compensation of program personnel, supplies and materials, equipment, and travel.

“Excluded costs” are those by which the nature of the expense, or because the nature of the costs require minimal administrative support, must be excluded from both the direct and indirect classification. Examples of excluded costs include food purchases, property-related expenditures, taxes, long-term interest, pass-through funds, and refunds of prior year revenues.

“Unallowed costs” are similar to excluded costs in that they must be excluded from both the direct and indirect classification. Examples of unallowed costs include capital expenditures, debt service, fines and penalties, and contingencies.

“Indirect costs” are costs that have been incurred for common or joint purposes and that benefit more than one function or program of the agency. These costs cannot be readily and specifically identified with a particular final cost objective without effort disproportionate to the results achieved. Indirect costs are further identified as either “restricted” or “unrestricted.” Restricted indirect costs may only be claimed for certain federal programs. Unrestricted indirect costs may be claimed for federal programs that are not specifically declared as restricted; in other words, do not contain a supplement, not supplant clause. Examples of indirect costs include data processing, purchasing, accounting, personnel and other central services.

Total costs, net of excluded and unallowed costs, are classified as direct or indirect. Direct costs are accumulated into a direct cost base. The direct cost base is modified to reflect reimbursable expenditures for services provided to other LEAs or AEAs (such as shared personnel contracts, tuition, transportation, data processing, cooperating purchasing, and consulting). Indirect costs are accumulated into an indirect cost pool. The indirect cost pool is modified to reflect applicable credits. An indirect cost rate is calculated by dividing the modified indirect cost pool by the modified direct cost base.

Calculation of Indirect Cost Rates

After classifying costs, the indirect cost rate will be determined. Table B shows the cost classification matrix being implemented and the method used to calculate an unrestricted indirect cost rate.

Table B
Unrestricted Rate

Description Function	Total Costs Total Expenditures	Included Costs		Excluded Costs		
		Direct Costs		Property 700-799	Other Objects 820-899	Other Uses 900-999
1000 Instruction	\$	\$				
2100 Student Services	\$	\$		\$	\$	\$
2200 Staff Services	\$	\$		\$	\$	\$
2310 Board Services	\$	\$		\$	\$	\$
2320 Executive Admin Services	\$	\$		\$	\$	\$
2330 Special Area Services	\$	\$		\$	\$	\$
2400 Building Admin Services	\$	\$		\$	\$	\$
2500-2539; 2570- 2599 Business Services	\$		\$	\$	\$	\$
2540, 2560 Business Services	\$	\$		\$	\$	\$
2600 Operations & Maintenance	\$		\$	\$	\$	\$
2700 Student Transportation	\$	\$		\$	\$	\$
2800 Central Support	\$		\$	\$	\$	\$
3100 Food Service	\$	\$		\$	\$	\$
3200 Enterprise Operations	\$	\$		\$	\$	\$
3300-3400 Community Services	\$	\$		\$	\$	\$
4000 Facility Acquisition	\$	\$		\$	\$	\$
5000 Other Uses	\$	\$		\$	\$	\$
Total	\$	\$	\$	\$	\$	\$
Less Other LEA/AEA Reimbursements	(\$)	(\$)	(\$)	\$	\$	\$
Net Costs	\$	\$	\$	(\$)	(\$)	(\$)

(A) (B)

Indirect Costs (B) [pool]
Direct Costs (A) [base]
Unrestricted Indirect Cost Rate = (B) / (A)

Table C shows the cost classification matrix being implemented and the method used to calculate a restricted indirect cost rate.

Table C
Restricted Rate

Description Function	Total Costs	Included Costs		Excluded Costs		
	Total Expenditures	Direct Costs	Indirect Costs	Property 700-799	Other Objects 820-899	Other Uses 900-999
1000 Instruction	\$	\$		\$	\$	\$
2100 Student Services	\$	\$		\$	\$	\$
2200 Staff Services	\$	\$		\$	\$	\$
2310 Board Services	\$	\$		\$	\$	\$
2320 Executive Admin Services	\$	\$		\$	\$	\$
2330 Special Area Services	\$	\$		\$	\$	\$
2400 Building Admin Services	\$	\$		\$	\$	\$
2500-2539; 2570-2599 Business Services	\$		\$	\$	\$	\$
2540, 2560 Business Services	\$	\$		\$	\$	\$
2600 Operations & Maintenance	\$	\$		\$	\$	\$
2700 Student Transportation	\$	\$		\$	\$	\$
2800 Central Support	\$		\$	\$	\$	\$
3100 Food Service	\$	\$		\$	\$	\$
3200 Enterprise Operations	\$	\$		\$	\$	\$
3300-3400 Community Services	\$	\$		\$	\$	\$
4000 Facility Acquisition	\$	\$		\$	\$	\$
5000 Other Uses	\$	\$		\$	\$	\$
Total	\$	\$	\$	\$	\$	\$
Less Other LEA/AEA Reimbursements	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Net Costs	\$	\$	\$	\$	\$	\$

(A) (B)

Indirect Costs (B) [pool]
Direct Costs (A) [base]
Restricted Indirect Cost Rate = (B) / (A)

The Department will calculate annually indirect cost rates, restricted and unrestricted, for each LEA and AEA from expenditures delineated on the CAR. Expenditures from the second preceding year will be used to complete the indirect cost rates for the current fiscal year. For example, expenditures from fiscal year 2014 will be used to calculate the indirect cost rate for fiscal year 2016 programs. By means of a computer application, the matrix will be applied and data for each LEA or AEA will be brought into the appropriate calculation. Total indirect costs will be divided by the total direct costs after exclusions and adjustments, and the indirect cost rate will be determined.

Historically, expenditures by function and object in LEAs and AEAs remain very consistent over time, giving the Department reasonable assurance that the rate calculated on expenditures in a base year will not exceed the rate based on actual costs in the second succeeding year. As agreed by ED, Iowa will further restrict the indirect cost rates, both restricted and unrestricted, by multiplying the rate by 90%, in lieu of utilizing a carryover calculation. This will result in final rates calculated as:

$$\text{Final Indirect Cost Rate} = (\text{pool/base}) \times .90$$

The organization charts, as well as reconciliation of rates for the three highest districts, are attached.

Application of Indirect Cost Rates

After the indirect cost rate is determined, the Department will notify each LEA or AEA of the maximum restricted rate it may use. Applying the maximum restricted rate against the direct costs of the award will generate the maximum indirect costs that may be recovered from the award. Indirect cost recoveries are that portion of the grant funding that are used to support the indirect costs of the program. The maximum restricted rate calculated for a program year will be applied to expenditures from the award in that year. If the grant award contains costs that are excluded from the direct or indirect cost base, the direct costs of the award will be modified to reflect the elimination of these costs from inclusion in the indirect cost reimbursement calculation. The indirect cost recovery is calculated by multiplying direct cost base by the indirect cost rate.

$$\text{Indirect Cost Rate} \times \text{Direct Cost Base} = \text{Indirect Cost Recovery}$$

The restricted indirect cost rate will represent the maximum amount that an LEA or AEA may apply to federal grant programs that have a statutory requirement prohibiting the use of federal funds to supplement non-federal funds.

The unrestricted indirect cost rate will represent the maximum amount that an LEA or AEA may apply to federal grant programs that do not have a statutory requirement prohibiting the use of federal funds to supplement non-federal funds.

State managers of federal programs have the option to assign to LEAs or AEAs more restricted levels of direct costs for application of the rate, thereby reducing total indirect cost recovery, for the purposes of accomplishing administrative expediency, increasing the flow of federal funds for direct project purposes, and meeting the reasonable assurance criteria described in OMB Circular A-87, Attachment E, Item 2. Additionally, the LEA or AEA may elect to apply a rate that is less than the approved rate, including a rate of zero.

Conclusion

The methodology proposed by the Iowa Department of Education conforms to the guidelines established by the U.S. Department of Education for the preparation of indirect cost rates. These guidelines have been provided in the publication *U.S. Department of Education Cost Allocation Guide for State and Local Government Agencies*.

Costs incurred by each Local Education Agency (LEA) and each Area Education Agency (AEA) will be identified as direct, indirect, or excluded and unallowed. This information will be obtained from the Certified Annual Report (CAR) for each agency. The direct cost base will be modified to adjust for revenues which offset expenditures incurred on behalf of other LEAs or AEAs and which will be reported on the CAR as an expenditure by the benefiting LEA or AEA. The indirect cost pool will be accumulated and divided by the modified direct cost base to determine the indirect cost rate, then multiplied by 90% to determine the final indirect cost rate.