**Section 2630.111 Guidelines for Cost Allocation Plans**

a) Publicly financed educational institutions. Indirect costs in publicly financed educational institutions are those that have been incurred for common or joint objectives and therefore cannot be identified specifically with a particular research project, instructional activity, training activity, or any other institutional activity. At educational institutions, such costs are normally classified under the following functional categories: general administration and general expenses; research administration expenses; operation and maintenance expenses; library expenses; and departmental administration expenses.

1) Identification and assignment of indirect costs.

A) General administration and general expenses.

i) The expenses under this heading are those that have been incurred for the general executive and other expenses of a general character which do not relate solely to any major division of the institution; i.e., solely to instruction, organized research, or other institutional activities. The general administration and general expense category should also include the staff benefit and pension plan costs applicable to the salaries and wages included therein, an appropriate share of the costs of the operation and maintenance of the physical plant, and charges representing use allowances and/or depreciation applicable to the buildings and equipment utilized by the grantee.

ii) The expenses included in this category may be apportioned and allocated on the basis of total expenditures exclusive of capital expenditures in situations where the results of the distribution made on this basis are deemed to be equitable both to the State and the institution; otherwise the distribution of general administration and general expenses should be made through use of selected bases applied to separate cost groupings established within this category of expenses in accordance with the guides set out in Section 2630.110(e)(2)(C) of this Part.

B) Research administration expenses.

i) The expenses under this heading are those that have been incurred by a separate organization or identifiable administrative unit established solely to administer the research activity, including such functions as contract administration, security, purchasing, personnel administration, and editing and publishing of research reports. They include the salaries and expenses of the head of such research organization, his assistants, and their immediate secretarial staff together with the salaries and expenses of personnel engaged in supporting activities maintained by the research organization, such as stock rooms, stenographic pools, and the like. The salaries of members of the professional staff whose appointments of assignments involve the performance of such administrative work may also be included to the extent that the portion so charged to research administration is supported as required by Section 2630.112 of this Part. The research administration expense category should also include the staff benefit and pension plan costs applicable to the salaries and wages included therein, an appropriate share of the costs of the operation and maintenance of the physical plant, and charges representing use allowance and/or depreciation applicable to the building and equipment utilized in performing such functions.

ii) The expenses included in this category should be allocated to organized research and, where necessary, to departmental research or to any other benefitting activities on any basis reflecting the proportion fairly applicable to each. (See Section 2630.110(e)(2)(C) of this Part.)

C) Operation and maintenance expenses.

i) The expenses under this heading are those that have been incurred by a central service organization or at the departmental level for the administration, supervision, operation, maintenance, preservation, and protection of the institution's physical plant. They include expenses normally incurred for such items as janitorial and utility services; repairs and ordinary or normal alterations of buildings, furniture and equipment, and care of grounds and maintenance expense category should also include the staff benefit and pension plan costs applicable to the salaries and wages included therein, and charges representing use allowance and/or depreciation applicable to the buildings and equipment utilized in performing the functions represented thereunder.

ii) The expenses included in this category shall be apportioned and allocated to applicable cost objectives in a manner consistent with the guides provided in Section 2630.110(e)(2) of this Part on a basis that gives primary emphasis to space utilization. In developing the allocations and apportionments, where actual space and related costs records are without significant change in the accounting practices, the amount distributed shall be based on such records; where the space and related cost records maintained are not sufficient for purposes of the foregoing, a reasonable estimate of the proportion of total space assigned to the various cost objectives will suffice as a means for effecting distribution of the amounts of operation and maintenance expenses involved; or where it can be demonstrated that an area or volume of space basis of allocation is impractical or inequitable, other bases may be used provided consideration is given to the use of facilities by research personnel and others, including students.

D) Library expenses.

i) The expenses under this heading are those that have been incurred for the operation of the library, including the costs of books and library materials purchased for the library, less any items of library income that qualify as applicable credits under Section 2630.110(b)(3) of this Part. The library expense category should also include the staff benefit and pension plan costs applicable to the salaries and wages of the library personnel an appropriate share of the costs of the operation and maintenance of the physical plant, and charges representing use allowances and/or depreciation applicable to the buildings and equipment utilized in the performance of the functions represented thereunder. Costs incurred in the purchase of rare books (museum-type books) with no research value should not be allocated to Government-sponsored research.

ii) The expenses included in this category should be allocated on the basis of population including students and other users. Where the results of the distribution made on this basis are deemed to be inequitable to the Government or the institution, the distribution should then be made on a selective basis in accordance with the guides set out in Section 2630.110(e)(2) of this Part. Such selective distribution should be made through use of reasonable methods which give adequate recognition to the utilization of the library attributable to faculty, research personnel, students, and others. The method used will be based on data developed periodically on the respective institution's experience for representative periods.

E) Departmental administration expenses.

i) The expenses under this heading are those that have been incurred in academic dean's offices, academic departments, and organized research units such as institutes, study centers, and research centers for administrative and supporting services which benefit common or joint departmental activities or objectives. They include the salaries and expenses of deans or heads, or associate deans or heads, of colleges, schools, departments, divisions, or organized research units; and their administrative staffs together with the salaries and expenses of personnel engaged in supporting activities maintained by the department, such as stockrooms, stenographic pools, and the like provided such supporting services cannot be directly identified with a specific research project, with an instructional activity or with any other institutional activity.

ii) The salaries of other members of the professional staff whose appointments or assignments involve the performance to such administrative work may also be included to the extent that the portion so charged to departmental administration expenses is supported as required by Section 2630.112 of this Part. The departmental administration expenses category should also include the staff benefit and pension plan costs applicable to the salaries and wages included therein, an appropriate share of the costs of the operation and maintenance of the physical plant, and charges representing use allowances and/or depreciation applicable to the buildings and equipment utilized in performing the functions represented thereunder.

iii) The distribution of departmental administration expenses should be made through use of selected bases applied to cost groupings established within this category of expenses in accordance with the guides set out in Section 2630.110(e)(2)(C) of this Part.

F) Offset for indirect expenses otherwise provided for.

i) The items to be accumulated under this heading are the reimbursements and other receipts from the Federal Government which are used by the institution to support directly, in whole or in part, any of the administrative or service (indirect) activities described in Section 2630.111(a)(1) of this Part.

ii) The sum of the items in this group shall be treated as a credit to the total indirect cost pool before it is apportioned to organized research and to other activities. Such offset shall be made prior to the determination of the indirect cost rate or rates as provided in Section 2630.111(a)(2) of this Part.

2) Suggested procedure for cost allocation plans. All institutional indirect or joint costs, including the various levels of supervision, are eligible for allocation to grant programs, provided they meet the conditions set forth in this Part. In lieu of determining the actual amount of institutional indirect costs allocable to a grant program, as determined by the direct allocation method prescribed in Section 2630.111 of this Part, the following procedures may be used:

A) General.

i) Where the total direct cost of all State supported work under JTPA grants at an institution does not exceed $1,000,000 in a fiscal year, the use of the abbreviated procedure described in subsection (B) below, may be used in determining allowable indirect costs. Under this abbreviated procedure, the institution's most recent annual financial report and immediately available supporting information, with salaries and wages segregated from other costs, will be utilized as a basis for determining the indirect cost rate applicable to JTPA grants.

ii) The rigid formula approach provided under this abbreviated procedure should not be used where it produces results which appear inequitable to the State or the institution. In any such case, indirect costs should be determined through use of the regular procedure.

B) Abbreviated procedure.

i) Establish the total amount of salaries and wages paid to all employees of the institution.

ii) Establish an indirect cost pool consisting of the expenditures (exclusive of capital items and other costs specifically identified as unallowable) which customarily are classified as general administration and general expenses (exclusive of costs of students administration and services, student aid, student activities, and scholarships); operation and maintenance of physical plant; library; and department administration expenses, which will be computed as 20% of the salaries and expenses of deans, and heads of departments. In those cases where expenditures classified as general administration and general expenses or operation and maintenance expenses have previously been allocated to other institutional activities, they may be included in the indirect cost pool. The total amount of salaries and wages included in the indirect cost pool must be separately identified.

iii) Establish a salary and wage distribution base, determined by deducting from the total of salaries and wages as established under subsection (B)(i) above the amount of salaries and wages included under subsection (B)(ii) above.

iv) Establish the indirect cost rate, determined by dividing the amount in the indirect cost pool in subsection (B)(ii) above by the amount of the distribution base in subsection (B)(iii) above.

v) Apply the indirect cost rate established to direct salaries and wages for individual agreements to determine the amount of indirect costs allowable to such agreements.

b) Local government agencies and other grantees.

1) Identification and assignment of indirect costs.

A) General. Because of the wide variety of situations to which regulations in this Part apply, these assignment methods are described in somewhat general terms. There are many methods for grouping and allocating costs to federally-sponsored activities. There are, however, four basic techniques in general use for distributing (prorating) the various types of joint or indirect costs. These are known as the direct allocation method, the single rate method, the multiple rate method, and the restricted method. However, regardless of the methods used in putting a proposal together it must account for all expenditures of the department/unit including nonappropriated funds, and miscellaneous fund expenditures. The use of a single composite rate applicable to all grants and contracts awarded to a particular department or unit is desirable from the standpoint of administrative simplicity. When, however, the use of such a rate would cause a significantly inequitable distribution of indirect costs to Federal programs (e.g., a distortion exceeding five percent of what a multiple rate would have yielded), more than one rate should be developed. The appropriateness of the use of more than one rate for a given department or unit depends on the extent to which the various activities performed by the organization benefit from the services whose costs comprise the indirect cost pool. For example, if all activities benefit substantially equally, a single rate would suffice; but if one or more activities benefit more or less from the services than do other activities and the cost difference is substantial, a single rate would not be acceptable. Also, it may occasionally be necessary to develop a special rate because legislation affecting a particular program limits the amount or type of indirect costs that may be charged to it. Such a rate is referred to as a restricted rate. In the event new legislation requires the use of a special rate (i.e., "restricted rate"), the Department's rules will be amended. A discussion of various methods that may be used for indirect cost allocation follows.

B) Direct allocation method. This method may be used when a grantee elects to direct charge its programs for all costs. Under this method, the actual joint costs of a department or unit are initially grouped into various functions, categories, or pools, such as accounting and payroll, data processing, and building occupancy costs. Each pool of costs is then distributed (or allocated) to the benefitting cost objectives or titles according to the relative degree of benefit which these cost objectives derive from that pool. The direct allocation method involves the following six basic steps:

i) Identifying all activities/functions carried on by the grantee or division and their attendant cost. All activities must be included regardless of the source of funds used to pay for them.

ii) Classifying those costs at the grantee level and at the division level as direct or indirect (joint) costs.

iii) Eliminating from joint costs all those costs that are unallowable in accordance with this Part, the Act, or 20 CFR 626-638 (1983).

iv) Classifying the grantee and divisional joint costs into functional cost groupings (pools) (i.e., clerical, space, telephone, printing).

v) Selecting an appropriate base for distribution of each classified pool of joint costs.

vi) Distributing each classified pool to the benefitting cost objectives or JTPA programs.

C) Single rate methods. When JTPA supported activities conducted by a State or local government department or unit benefit to the same relative degree from its indirect costs, or where the JTPA activity is not substantial in amount (e.g., when the indirect costs for JTPA activities are less than five percent greater than the indirect costs for other activities), it is not necessary to make a series of indirect cost distributions. Instead, a single rate shall be developed. This involves five basic steps:

i) Identifying all the activities carried on by the department or unit and their attendant costs. All activities must be included regardless of the source of funds used to pay for them.

ii) Incorporating those costs allocated to the departments or units through the cost allocation plan.

iii) Classifying the activities and their costs as direct or indirect.

iv) Eliminating from the indirect costs, capital expenditures, and those costs stipulated as unallowable in Sections 2630.110 and 2630.112 of this Part.

v) Computing the rate by dividing the total remaining indirect costs by the direct cost base selected for distribution of the indirect costs. In most instances the types of costs allocated at the departmental level are most equitably allocated on a base of total direct salaries and wages or total direct salaries and wages plus applicable fringe benefits and, hence, these bases are preferred. However other bases, such as total direct costs less capital expenditures, may be used when they can be demonstrated to be more equitable.

D) Multiple rate methods. The need for the computation of more than one rate would exist where JTPA activities performed or administered by a department or unit uses significantly more or less of the departmental services reflected in the indirect cost pool (e.g., a distortion exceeding five percent.) than the department's or unit's other activities. Likewise, separate rates may be required for divisions within a department or unit whose indirect costs are disproportionate to other divisions within the department or unit. The multiple rate method involves the following eight basic steps:

i) Identifying all the activities carried on by the Department or unit and its division/bureaus and their attendant costs. All activities must be included regardless of the source of funds used to pay for them.

ii) Incorporating those costs allocated to the department or unit through the approved cost allocation plan. Approval is discussed in Section 2630.113 of this Part.

iii) Classifying the activities performed at the department level and at each division/bureau and their cost as direct or indirect.

iv) Eliminating from indirect costs, capital expenditures, and those costs stipulated as unallowable in Sections 2630.110 and 2630.112 of this Part.

v) Classifying the departmental indirect costs which benefit the divisions and bureaus of the department or unit in functionally different proportions into functional groupings (pools).

vi) Selecting an appropriate base for distribution of each classified pool of indirect costs. See Section 2630.114 of this Part for examples of distribution bases.

vii) Distributing each classified pool to the benefitting divisions or bureaus.

viii) Calculating an indirect cost rate for each division or bureau of a department or unit by relating the total indirect costs of each division/bureau to that division's/bureau's direct cost base. The indirect costs of a division/bureau are the sum of its own indirect costs plus costs assignable to it from the department level and the central service allocation plan.

ix) In most instances the types of costs allocated at the departmental level are most equitably allocated on a base of direct salaries and wages or direct salaries and wages plus fringe benefits and, hence, these bases are preferred. However, other bases, such as total direct costs less capital expenditures, may be used when they can be demonstrated to be more equitable, as defined in Section 2630.110(e)(2)(C)(iii) of this Part.

E) Restricted rate method. Although there are not now statutory or regulatory prohibitions from the full recovery of indirect costs by JTPA grantees, should such restrictions be implemented, it may be necessary to develop a special rate for the affected program. Such rates are referred to as "restricted" rates. The procedure for developing a restricted rate is the same as that used for developing non-restricted rates except that it includes an additional step, the elimination from the indirect cost pool(s) of those costs for which the law or regulations prohibit reimbursement. A local government conducting JTPA programs with specific indirect cost restrictions are advised to contact the Department of Commerce and Community Affairs for guidance in developing their cost allocation plans.

2) Suggested procedure for cost allocation plans. The plan involves three basic, logical, sequential steps: identification of the services and the costs of each service to be claimed; determination of the method for allocating the costs of each service to user departments or units; and mathematical allocation of those costs to the user departments or units in the form of a single, formal, comprehensive proposal or plan. The plan must contain (but need not be limited to) the following schedules and narratives:

A) For services furnished but not billed to other government departments or units:

i) a description of the types of services provided and their relevance to Federal projects;

ii) the items of expense included in the cost of the service;

iii) the methods used in distributing the costs to benefitting departments or units;

iv) identification of the departments rendering the service and receiving the service; and

v) a summary schedule of the allocations of central service costs to benefitting operating departments.

B) For other services furnished and billed to other government departments or units:

i) Subsection (A) (i), (ii), and (iv) above.

ii) a concise but complete description of the method used to determine the billing rate or amount for each billed service.

iii) a concise but complete description of the accounting treatment of any under/over billed costs for the fiscal period.

C) In addition to the above data, the plan must also contain:

i) an organizational chart showing all departments and other units of the government even though they may not be shown as benefitting from the central service functions.

ii) a copy of financial statements prepared by either certified public accountants, licensed public accountants, or State or local government auditors, or a copy of the official budget of that department/unit if the budget reports the actual expenditures for the year on which the proposal should be supported by other financial documents generated either by the department or unit or higher tier government agency which can be used to substantiate the authenticity of the amounts proposed. Any differences between line items shown on the indirect cost proposal and line items shown on the supporting documentation must be reconciled. The initial proposal should include information which provides a clear understanding of the accounting classification system employed, including a narrative description of the functions treated as indirect costs. Information on the accounting classification system and on the indirect cost narratives need only be updated in years other than the initial year.

iii) a certification by an authorized government official that the cost allocation plan has been prepared in accordance with applicable policies and procedures.

D) Application of rates. The indirect cost rate is the means by which the amount of indirect costs applicable to a given grant or contract is computed. The computation is a simple multiplication of the base costs chargeable to the grant or contract by the rate. For example, assume rates of 14% and 12% applied to total direct costs have been established for an organization's fiscal years ending June 30, 1976, and June 30, 1977, respectively. Also assume a grant for $50,000 was awarded effective March 1, 1976. The rate of 14% would be applied to the $18,000 spent in FY 1976, and the 12% rate would be applied to the $32,000 spent during FY 1977, the last eight months of the grant year. The total amount chargeable to the grant would be $6,360.

(Source: Amended at 11 Ill. Reg. 11682, effective June 29, 1987)