

Chapter 50 – Cost Allocation and Indirect Costs

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50.20 Cost Allocation and Indirect Cost Recoveries

50.20.10 The purpose of these policies

This section establishes state policies and procedures governing indirect cost allocation and recoveries. These policies and procedures are based upon federal laws and regulations for federally funded activities and state laws for state funded activities.

50.20.20 Authority for these policies

This section is issued pursuant to the authority granted to the Office of the State Controller: “Develop a financial management and accounting practices manual for the purpose of promulgating systemwide uniform financial management practices for state agencies. The manual must be updated on an annual basis;” [Title 5, Subsection 1541-A]

50.20.30 Applicability

This part is applicable and binding on all agencies of the State of Maine receiving, administering or expending federal assistance, unless otherwise exempted by federal or state law, and on all agencies involved in interagency activities.

Agencies may request a waiver from complying with specific requirements of this chapter. Refer to Subsection 1.10.40 for information on how to request a waiver.

50.20.40 Agencies must comply with the cost allocation and allowable cost principles in OMB circulars

The United States Office of Management and Budget (OMB) has published several circulars establishing uniform principles for determining allowable costs incurred by nonfederal entities expending federal awards. In addition, these circulars provide requirements for the development and submission of cost allocation plans and indirect cost rate proposals. State agencies and institutions perform functions and activities that are either

federally assisted or provide central service support to federally assisted programs or activities. As such, they are subject to provisions of the cost principle circular applicable to their activities.

50.20.50 Which OMB circular applies?

50.20.50.a **Circular A-87** – Applies to **all state agencies and institutions, except** for:

- Public institutions of higher education, and
- Publicly owned hospitals, and
- Other providers of medical care described in 50.20.50.d. below.

This circular establishes:

1. Principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments and federally recognized Indian tribal governments;
2. Requirements for the development and submission of cost allocation plans and indirect cost rate proposals for these nonfederal entities;
3. Specific requirements on the distribution of state/local government central service costs, including provisions on the development and submission of state/local government central service cost allocation plans;
4. Requirements for the development and submittal of state departmental assistance cost allocation plans; and
5. The HHS Implementation Guide for circular A-87 is ASMB C-10.

50.20.50.b **Circular A-21** - Establishes principles for determining costs applicable to grants, contracts and agreements with **institutions of higher education**. This Circular also provides requirements for the development and submission of facilities and administration indirect cost proposals.

- 50.20.50.c **Circular A-122** - Establishes principles for determining costs of grants, contracts and other agreements with **nonprofit organizations**. Colleges and universities, covered by Circular A-21, are specifically excluded from coverage by this circular. The Circular also provides requirements for the development and submission of indirect cost rate proposals.
- 50.20.50.d Federal Awards administered by **publicly-owned hospitals or other providers of medical care** are subject to requirements promulgated by the sponsoring federal agencies.
- 50.20.50.e **Entities receiving sub-grants of federal awards** are subject to those federal cost principles applicable to the sub-recipient organization.
- 50.20.50.f **All central service and department/agency costs** that are allocated or billed to educational institutions, hospitals or other providers of medical care or services by other state or local departments or agencies are subject to Circular A-87.

50.20.60 The Statewide Central Services Cost Allocation Plan (STACAP) is used to identify and assign central service costs

Most governmental units provide certain services such as accounting, computing, payroll services, motor transportation, etc., to operating agencies on a centralized basis. Since federally supported awards are performed within the individual operating agencies, a process is necessary to identify these central service costs and assign them to benefiting activities on a reasonable and consistent basis. The federally reviewed and approved, statewide, central service cost allocation plan (STACAP) provides that process.

The Financial Reporting and Analysis Division of the Bureau of Accounts and Control prepares, administers, and submits to the federal government an annual central services cost allocation plan (STACAP) for the state. One part of the plan justifies and reconciles the activities of the billed state central services (internal service and self-insurance. A second part allocates the allowable costs of other state central services benefiting agencies expending federal awards.

Two basic methods are used in the plan to assign appropriate costs of centralized services to operating agencies or their programs:

- **Allocated Central Services**
Services that benefit operating agencies and/or programs are not billed on a fee for service or similar basis but allowable costs are allocated to benefited agencies through the STACAP process.
- **Billed Central Services**
Allowable costs are billed to benefited agencies and/or programs on an individual fee for service or similar basis. Self-insurance and fringe benefit activities are other central service activities that bill customers for services or benefits provided.

50.20.65 Responsibilities of central, billed internal service activities

State of Maine central, billed internal service activities have the following responsibilities:

1. Understand and adhere to the requirements of Circular A-87, particularly those provisions relating to allowable amounts of working capital and annual adjustments between revenue and allowable actual costs.
2. Ensure that the following information is made available for inclusion in the state plan:
 - A current narrative description of the activity;
 - A description of the procedures (methodology) used to charge activity costs to users including how billing rates are determined and a schedule of current rates; and
 - A summary of costs billed to users for the most recent complete state fiscal year, by user.

50.20.85 Indirect costs in interagency activities

50.20.85.a The full costs of a state agency incurred in providing services or furnishing materials to or for another agency shall be charged to the agency contracting for such services or materials and shall be repaid and credited to the fund or appropriation against which the expenditure originally was charged. For these purposes, full costs shall generally include direct and indirect costs.

50.20.85.b

The nature of interagency activity varies greatly ranging from providing a service or product with established indirect costs components to the simple sharing of usage, and/or rental, costs for a common piece of equipment. As such, parties to interagency agreements should include specific language in the text of their agreements to determine and define allowable indirect costs.