



Statewide Cost Allocation Plan and Indirect Cost Recovery

ISSUE

This *Issue Review* provides information regarding the Statewide Cost Allocation Plan (SWCAP) and Indirect Cost Recovery.

AFFECTED AGENCIES

State agencies that receive funding from non-General Fund sources

CODE AUTHORITY

Iowa Code section [8A.505](#)

BACKGROUND

The State of Iowa began preparing an annual Statewide Cost Allocation Plan (SWCAP) in 1971. The SWCAP enables the State to recover costs for central services such as security and payroll processing from federal grants and contracts. The federally reviewed and approved SWCAP provides a process so that approved costs attributable to the administration of federal grants and contracts can be included in agency cost allocation plans and indirect cost rate proposals. This process ensures that the costs are applied in a reasonable and consistent manner and that federally funded programs do not pay or incur a disproportionate share of the cost of any particular service.¹

Since 1970, the U.S. Office of Management and Budget (OMB) has established procedures to allow states to recover direct and indirect costs from federal programs. The SWCAP is prepared according to the requirements of [OMB Circular A-87](#). Effective for State fiscal year (SFY) 2016, the requirements have incorporated the new [OMB Circular 2 CFR Part 200](#).

¹ Reasonable costs are defined under [OMB Circular 2 CFR Part 200.404](#). A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the nonfederal entity is predominantly federally funded. In determining reasonableness of a given cost, consideration must be given to:

- (a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the nonfederal entity or the proper and efficient performance of the federal award.
- (b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; federal, State, local, tribal, and other laws and regulations; and terms and conditions of the federal award.
- (c) Market prices for comparable goods or services for the geographic area.
- (d) Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the nonfederal entity, its employees, its students or membership (where applicable), the public at large, and the federal government.
- (e) Whether the nonfederal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the federal award's cost.

The SWCAP is prepared annually for each State fiscal year by the Department of Administrative Services, State Accounting Enterprise (DAS-SAE), and must be submitted to the federal Department of Health and Human Services (DHHS). Because the DHHS is the largest grantor of federal funds, the Cost Allocation Division (CAD) of the DHHS is responsible for auditing the SWCAP.

CURRENT SITUATION

There are two types of central service costs allowed under the SWCAP. The first is allocated central service costs that benefit agencies but are not billed on a fee-for-service basis. The DAS-SAE utilizes a software program to allocate this type of cost. **Figure 1** includes some examples.

Figure 1: Examples of Allocated Central Service Costs

Allocation	Methodology
Building Interest Expense (Iowa Utilities Board)	Square footage occupied
Capitol Complex Space (including Utilities and Capitol Security)	Square footage occupied
Cultural Affairs Record Storage Center	Number of boxes stored
DAS Office of the Director	DAS salaries
DAS-SAE Accounting	Transaction counts
DAS-SAE Pre-Audit	Claim counts
DAS-SAE Payroll	Employee counts
DAS-SAE 1/3	Transaction counts
Law Enforcement Academy	Student attendance days
Department of Management (allowable costs)	Time studies
Treasury Warrant Redemption	Warrants issued
Treasury Warrant Processing	Receipt documents processed

The second type of allowable costs is central service costs billed to benefiting agencies on an individual fee-for-service or similar basis. **Figure 2** includes some examples.

Figure 2: Examples of Billed Central Service Costs

Attorney General	Auditor of State
DAS - Core Shared Services	DAS - Facility and Support
DAS - Human Resources	DAS - 1/3 Support
DAS - Mail Services	DAS - Postage Operations
DAS - Purchasing and Supply	DAS - Vehicle Dispatcher
DAS - Workers' Compensation	DOT - Materials and Equipment
Employee Benefits	Iowa Communications Network
Inspections and Appeals	Office of the Chief Information Officer

Each billed central service cost requires a schedule comparing the total revenue generated by each service to the allowable costs for that service. These schedules must be submitted to the DHHS (including unbilled and uncollected revenues). Additionally, this information must match the information contained in the Comprehensive Annual Financial Report (CAFR). Other required information that must be submitted for this type of cost includes a description of services, copies of financial statements including the CAFR, explanations of methodologies

used to determine the billing rates, schedules of current rates, summaries of billings by State agency, and a list of transfers for each fund.

The cost reconciliations for billed central service costs permit a State agency to maintain up to 60 calendar days of working capital in reserve funds to operate from one billing cycle to the next. If an excess balance is calculated, federal negotiators may require a return of the federal share of the excess balance. Other options may be negotiated during the federal audit, depending on the amount of the excess and whether other options, including refunds to State agencies or reductions in rates, can be agreed upon.

BUDGET IMPACT

The DAS-SAE prepares the SWCAP annually using the most recently completed State fiscal year as a projection of costs. For example, the SFY 2016 SWCAP was completed based on SFY 2014 costs. Costs must also include a roll-forward reconciliation of actual central service costs compared to the projected costs of the previously completed SWCAP. Roll-forward costs can be either positive or negative adjustments. Central service managers for the services provided and finance staff in the State agencies paying for the services also provide information included in the SWCAP reconciliations. Cost allocation statistics are updated on an annual basis by the DAS-SAE and reviewed with State agency staff prior to submission to the DHHS. Any costs received from the SWCAP are generally maintained by State agencies to be used for operating costs.

The DHHS conducts an annual audit to ensure that billing methodologies are fair and equitable among all funding sources paying for each service. When billing methodologies have been identified as inconsistent or inequitable, state representatives work with the DHHS to negotiate any amounts of overpayments of federal funds, initiate corrective action when necessary, and cooperate with appropriate agencies to pay back any identified federal overpayments.

RECENT AUDIT FINDINGS

During a review of the SFY 2015 Statewide Cost Allocation Plan by the DHHS, it was discovered that from SFY 2010 through SFY 2015, the DAS-Information Technology Enterprise (ITE)/Office of the Chief Information Officer (OCIO)-Storage had accrued excess federal dollars as part of the fund balance for the fiscal year ending June 30, 2015.² A review of the SFY 2016 SWCAP determined that the excess fund balance had not been eliminated and that a refund totaling \$1.1 million was due to the federal government. The State agreed to the refund amount. A letter from the federal government requesting payment was dated May 17, 2016, with payment due 30 days from the date of the notification. The claim was approved to be paid through the State Appeal Board process, and a check was issued on June 8, 2016. The DAS-SAE is currently working on the SFY 2017 Statewide Cost Allocation report. The OCIO will review its rates with the Department of Management (DOM) to determine if any adjustments are necessary. The IT rates have not changed since FY 2013.³

² Storage includes both open systems and mainframe storage used to support all OCIO customers for online, batch, and backup services.

³ The fees charged for the IT Enterprise for FY 2013, FY 2014, and FY 2015 were adopted at the [July 2012](#) and [August 2013](#) Customer Council meetings under DAS-ITE. There have been no changes to IT rates since FY 2013. Any new rate changes for the OCIO do not go through Customer Council, but are reviewed by the DOM.

Figure 3 provides a history of paybacks to the federal government since SFY 1995. Of the total \$16.1 million repaid to the federal government, \$13.9 million (86.2%) was repaid through the State Appeal Board process from the State General Fund.⁴

Figure 3: History of Federal Cost Recovery Repayments

Service	Year Reviewed	Amount Repaid	Notes
Vehicle Dispatcher	FY 1995	\$ 198,767	
Central Communications	FY 1995	241,600	partial payment
Vehicle Dispatcher	FY 1997	306,130	
Central Communications	FY 1995-1997	1,319,135	final payment
Data Processing Services	FY 1995-1998	1,830,550	partial payment*
Data Processing Services	FY 1995-1998	470,090	final payment*
Data Processing Services	FY 1999	420,670	*
Workers' Compensation	FY 2000	169,225	*
Data Processing Services	FY 2000	457,870	*
Data Processing Services	FY 2001	507,504	*
Repayment of Federal Portion of Various Transfers to General Fund	FY 2002	889,260	*
Data Processing Services	FY 2002	517,638	*
State Vehicle Dispatcher	FY 2003	344,500	*
Information Technology Services	FY 2003	1,954,451	*
Information Technology Enterprise	FY 2004	3,138,949	*
Information Technology Enterprise	FY 2005	1,182,064	*
Information Technology Enterprise	FY 2009	864,894	*
DAS Purchasing Administration	FY 2013	92,000	
DAS Mail Services	FY 2013	67,000	
DAS-ITE/OCIO Storage	FY 2010-2015	1,121,927	*
		<u>\$ 16,094,224</u>	

Source: DAS
Note: * Paid through the State Appeal Board process

Indirect Cost Recovery: In addition to the costs identified in the federally negotiated SWCAP, the DAS-SAE bills other indirect central service costs that cannot be charged to federal sources. This includes services provided by the Office of the Ombudsman, the Fiscal Services Division of the Legislative Services Agency, the DOM, the State Treasurer, and the Executive Council. Iowa Code section [8A.505](#) requires the DAS-SAE to develop and administer an indirect cost allocation system for State agencies. State agencies are billed for the indirect costs at the beginning of the State fiscal year. Any moneys recovered under Indirect Cost Recovery are deposited in the State General Fund. According to the DAS-SAE, the average amount deposited is approximately \$2.0 million annually.

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⁴ The DAS was created on July 1, 2003, by combining four existing State agencies (General Services, Revenue and Finance, Personnel, and Information Technology). All or a portion of the DAS-ITE rates were paid from a General Fund appropriation through 2007. In 2013, the Office of the Chief Information Officer (OCIO) was created and the IT portion of the DAS was transferred to the OCIO. 2013 Iowa Acts, [ch. 129](#).