



# Contract Support Cost 101

May 2014  
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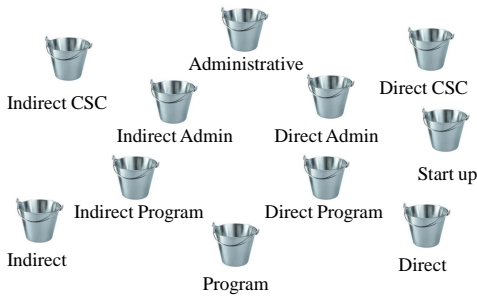
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## Cost Classification



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## PL 93-638

**Section 106(a)(1):** "...funds provided...shall not be less than the appropriate Secretary would have other wise provided..."

**Section 106(a)(2):** CSC shall consist of reasonable costs for activities to ensure compliance with terms of the contract and prudent management...

**Section 106(a)(3):** defines CSC eligible for reimbursement as reasonable costs that may be direct or indirect but shall not duplicate Section 106(a)(1) funding. May be renegotiated annually at the request of the Tribe.

**Section 106(a)(5) and (a)(6):** authorizes startup and pre-award costs to be provided as a part of CSC.

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## PL93-638



**Startup costs** consist of the reasonable costs that have been incurred or will be incurred on a one-time basis pursuant to the contract necessary to plan, prepare for, and assume operation of the PFSA that is the subject of the contract; and to ensure compliance with the terms of the contract and prudent management

**Examples:**

- Administrative computer hardware & software
- Training necessary to operate the program
- Systems development
- Equipment & furniture (Administrative staff)
- Travel to participate in contract negotiations

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## PL93-638



**Direct contract support costs (DCSC)** pay for activities that are not contained in either the IDC pool (or indirect-type cost budget) or the amount computed pursuant to section 106(a)(1). DCSC amounts are awarded on a recurring basis and need not be justified each year.

**Unique to BIA and IHS PL93-638**

**Federal agency system examples:**

Other services provided on behalf of BIA and IHS by other agencies not included in the 106(a)(1) amount include

- OPM Personnel
- GSA Facilities and space
- DOJ Legal

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## PL93-638



**Direct contract support costs (DCSC)**

**Examples:**

- Unemployment taxes on direct program salaries;
- Workers compensation insurance on direct program salaries;
- Cost of retirement for converted Civil Service salaries
- Facilities support costs to the extent not already made available
- Federal Insurance Contributions Act (FICA) on direct program salaries;
- Insurance to the extent not already made available (Life, Health, Disability, Property, Fire, and General Liability);
- Training required to maintain certification of direct program personnel to the extent not already made available; and
- Any other item of cost that meets the definition of CSC at Section 106(a)(2) but is not included in the IDC pool or 106(a)(1) amount.

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## PL 93-638



**Indirect contract support costs (IDCSC)** are any additional administrative or other expense related to the overhead incurred by the Tribe or Tribal contractor in connection with the operation of the Federal program, function, service, or activity pursuant to the contract

Examples:

- Financial management
- Accounting
- Procurement / Acquisition Mgmt
- Human Resources
- Property Mgmt

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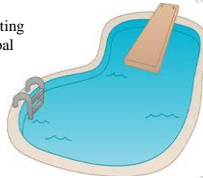
## Allocation of Indirect Cost

### Indirect Cost Pool:

Grouping of indirect cost that must be allocated. Accumulated costs that jointly benefit two or more programs or cost objectives

### Indirect costs are

- incurred for a common or joint purpose benefiting more than one cost objective (federal grants, tribal programs)
- not readily assignable to the cost objectives (federal grants, tribal programs) specifically benefited, without effort disproportionate to the results achieved.



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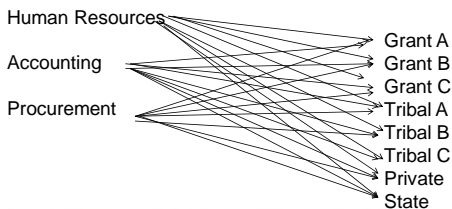
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## Allocation of Indirect Cost



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## Allocation of Indirect Cost



The process used to distribute costs based on the concept of benefits received

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## Allocation of Indirect Cost

### Indirect Cost Rate:

A tool for determining the proportion of indirect costs each program should bear. It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base.

$$\text{IDC Rate (\%)} = \frac{\text{Total Indirect Costs (Pool)}}{\text{Base (Direct Cost Base)}}$$

$$\text{IDC Rate (\%)} = \frac{\text{Accumulated costs benefiting multiple programs}}{\text{Accumulated direct costs used to distribute}}$$

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## Allocation of Indirect Cost

$$\text{IDC Rate (\%)} = \frac{\text{Total Indirect Costs (Pool)}}{\text{Base (Direct Cost Base)}}$$

### “Base” or “direct cost base” or “distribution base”:

The accumulated direct costs used to distribute indirect costs to individual federal awards.

The direct cost base selected should result in each award bearing a fair share of the indirect costs in reasonable relation to the benefits received from those costs.

- If a grant indirect chargeable or allowable rate is less than the negotiated rate- tribe decides to reject the award or pays difference.

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## Allocation of Indirect Cost

There are three options for establishing the Base:

- S&W: Total Direct Salaries & Wages (excluding Fringe)
- SWF: Total Direct Salaries & Wages & Fringe
- MTDC: Modified Total Direct Costs (excludes "any extraordinary or distorting expenditures", usually capital expenditures, subawards, contracts and passthrough funds, etc)

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## Allocation of Indirect Cost

Four "types" of rates  
(relate to time period of application and adjustments)

1. Fixed rate (fixed carry forward rate)
2. Provisional
3. Final
4. Predetermined

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## Allocation of Indirect Cost

1. **Fixed rate (also known as a fixed carry forward rate)**  
is an indirect cost rate that applies to a specific current or future time period (usually the organization's fiscal year). It differs from the predetermined rate in that it is subject to later adjustment. Initially, the fixed rate is based on estimated costs for a set, future time period. When the actual costs for that period become available, a carry forward adjustment is used. A carry forward adjustment is the amount required to reconcile the difference between the estimated costs and the actual costs incurred for the agreed-upon time period.

2. **Provisional rate**  
is a temporary indirect cost rate that is applied to a limited time period that is used until a "final" rate is established for that same period. Provisional rates can be used for funding, interim reimbursement, and reporting of indirect costs on federal awards. They must be finalized by submitting an "Indirect Cost Rate Proposal for a Final Rate" once the actual costs for the specified time period are known and can be verified through audited financial statements.

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## Allocation of Indirect Cost

### 3. Final Rate

is an indirect cost rate applicable to a specific time period that is based on the actual, allowable costs of that period. Once established, a final, audited rate cannot be adjusted.

### 4. Predetermined Rate

is an indirect cost rate that applies to a specific current or future time period (usually the organization's fiscal year). Except under very unusual circumstances, a predetermined rate cannot be adjusted. Predetermined rates may be used with cooperative agreements and grants only. They may not be used for federal contracts due to legal constraints. Predetermined indirect cost rates may be negotiated for periods of up to 2 to 4 years.

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## Allocation of Indirect Cost

### OMB Guidance:

The **cognizant agency** for negotiating indirect cost rates shall be the federal agency that provides the majority of the Federal funding.

However, the **IBC- Indirect Cost Services** is the Federal cognizant agency designated by OMB to negotiate indirect cost rates for **all Indian tribal governments and their component units regardless of funding**. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable.

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## Allocation of Indirect Costs

**Special Rates** allow a tribal government to have more than one indirect cost rate

Examples of Special Rates include:

#### 2 Rate Option

- 638 Rate
- All other Rate

#### 3 Rate Option

- BIA 638 Rate
- IHS 638 Rate
- All other Rate

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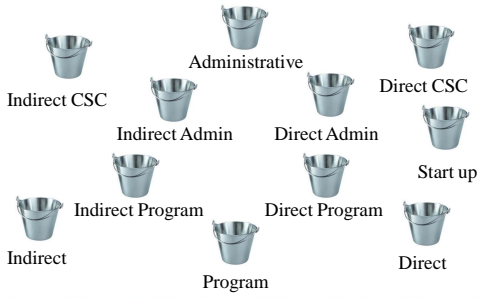
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## Cost Classification




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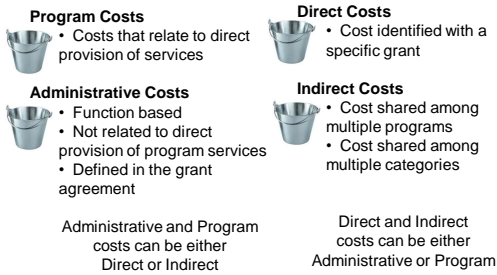
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## Cost Classification




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## Cost Classification

	Direct	Indirect
Program	Direct Program	Indirect Program
Administrative	Direct Administrative	Indirect Administrative

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## Cost Relationships



Administrative Costs  $\neq$  Indirect Costs

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## Cost Relationships

Administrative Costs  $\neq$  Indirect Charged  
 15% Cap                      17% Rate

Federal Funds	960,000	Total Expenditures	960,000
Matching	240,000	Less:	
Total Program	1,200,000	Indirect Cost	134,402
Administrative Cap	15%	Equipment	15,000
Max Allowable	180,000	Contracts	20,000
		Exclusions	169,402
		Chargeable Costs	790,598
		Indirect Cost Calculation	134,402
		Chargeable Costs	790,598
		Indirect Cost Calculation	134,402
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## Basic Guidelines

- To be compliant under Federal funds, costs must be:

- a) allowable;                      meet regulations
- b) allocable;                      belong to this program
- c) reasonable;                      to a "prudent" person




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## Basic Guidelines

### Allowable General Criteria:

- Be "**reasonable**" for the performance of the award
- Be "**allocable**" to the award under OMB cost principles
- **Conform** to any **limitations or exclusions** imposed by OMB cost principles or in the award as to the types or amount of cost items
- Be **consistent with policies and procedures** that apply **uniformly** to both federally-financed and other activities of the organization
- Be accorded **consistent treatment**
- Be determined in accordance with generally accepted accounting principles (**GAAP**)
- Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program (PL93-638 has specific exception in the law for matching)
- Be adequately **documented**

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## Basic Guidelines

### Allocable General Criteria:

- A cost is allocable in accordance with the **relative benefits** received
- Treated **consistently** with other costs incurred for the same purpose in like circumstances and
  - Incurred **specifically** for the award (*direct relationship*), or
  - Benefits both the award and other work and can be **reasonably distributed** in proportion to the benefits received, or
  - Is **necessary** to the overall operation of the organization and a direct relationship to any particular cost objective cannot be shown
- Costs allocable to a particular award or cost objective **may not be "shifted"** to other Federal awards to overcome funding deficiencies, or to avoid restrictions by law or by terms of the award

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## Basic Guidelines

### Reasonable General Criteria:

- Pass **prudent person** test – it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time of the decision to incur the costs
- Recognized as **ordinary and necessary** for the operation of the organization or the performance of the award
- Constitutes **sound business practice**, including arms length bargaining, and conforms to the restraints and requirements of Federal and State laws and regulations, and terms and conditions of the award
- **Prudence** exercised in the circumstances considering responsibilities to the organization, its members, employees, clients, public, and Federal Government
- Does **not significantly deviate** from the organization's **established practices**

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## Workgroup Discussions

- FY2014 Payout recommendations
- Standard Amendment language
- Exclusions Matrix
  - Consistent treatment of exclusions, pass-throughs
- Rate negotiations
  - IBC vs. IHS cognizant agency
  - Necessary and allowable
  - Compliance with terms

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## Handouts

- CSC Overview
- IBC: Certification
- IBC: IDC FAQs
- IBC: Indian Tribal Government FAQs
- IBC: Cited Unallowable Cost Reference Sheet

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