Administrative and Indirect Costs

What’s the difference?
Learning Objectives

- Define administrative costs.
- Describe the difference between direct and indirect costs.
- Describe what an indirect cost rate agreement is and where you go to apply for one.
- Describe the relationship between administrative costs, program costs, direct costs and indirect costs.
- Track and report administrative and indirect costs.
Why this is important?

• Failure to track and report costs accurately can lead to disallowed costs.

• Common Problems:
  – Distinguishing between Administrative and Program Costs
  – Distinguishing between Administrative and Indirect Costs
  – Inappropriate reporting of costs may lead to exceeding limitations
Administrative Costs
Two Basic Cost Categories

- **Administration**
  - Function based
  - Not related to direct program services
  - Can be both direct and indirect

- **Program Activities**
  - All grant costs that relate to direct provision of services to participants and employers
Cost Classification

- Process of assigning costs to benefitting cost objectives
- Placing costs into some category such as:
  - Administration, Program, Program income, Match or leveraged resources
  - Or some other category as prescribed by statute.
- General Ledger or Books of Account
Administrative Costs - Definition

- 20 CFR 667.220 – applies to all grants and programs receiving WIA Title I funds
- Definition also applies to other ETA grants
  - Referenced in the grant agreement
- Allocable portion of necessary and reasonable costs that are not related to direct provision of workforce services
Administrative Functions

- Accounting, budgeting, financial and cash management
- Procurement and purchasing
- Personnel and property management
- Payroll, audit and general legal services
- Oversight and monitoring of administrative activities
- Developing information systems and procedures related to administrative functions
Administrative Cost Limitations

- Specific to each grant
- Contained in Grant Agreement
- Measured at conclusion of grant period
- Tracked, accounted for & reported quarterly
- Includes direct and indirect administrative costs
Administrative or Program?

- Oversight and monitoring
- Goods and Services
- Travel
- Information Systems

It depends on the nature of function or activity
Administrative or Program? (cont.)

- Who must classify costs as both administrative and program.
  - State and local Workforce Investment Boards
  - All Direct recipients

Subrecipients
  - WIA Local fiscal agents
  - WIA Local grant recipients
  - WIA One-stop operators
  - All other subrecipients do not have to classify costs
Administrative or Program? (cont.)

- Awards or contracts to subrecipients or vendors
  - Depends on the nature of the subaward

- Costs of personnel who perform both administrative and program services
  - Must be allocated
Administrative or Program? (cont.)

Job Title vs. Job Function

- It is the Job Function NOT the Job Title That Dictates Cost Classification
Indirect Costs
Direct Cost or Indirect Cost?

- **Direct Costs**
  - Cost identified with a specific grant

- **Indirect Costs**
  - Cost shared among multiple programs
  - Cost shared among multiple categories

- Direct and Indirect Costs Can Be Either Administrative or Program
What are indirect costs? (It’s easier if we identify direct costs first.) Direct costs…

- Those costs that can be readily identified with a particular cost objective. Examples: (program specific)
  - Salaries – LWIB program staff
  - Space – sq. ft. occupied by direct staff
  - Supplies – used by direct staff
  - Communications – used by direct staff
What are indirect costs?

Those costs which are not readily identifiable with a particular cost objective. Examples:
- Salaries – Executive Director, Accountant, etc.
- Space – sq. ft. occupied by indirect staff
- Supplies – used by indirect staff
- Communications – used by indirect staff
Conceptualizing Direct and Indirect
Cost Allocation

- The process used to distribute costs based on the concept of benefits received
- Benefit to grant program and cost objectives in particular
- Direct charged to single objective, shared split across objectives, or indirect
- General Ledger or Books of Account
What’s an indirect cost rate agreement?

- Agreement between a recipient and federal agency that specifies the treatment of indirect costs.
- Ratio between the total indirect expenses and some direct cost base.
- Based on indirect cost proposal and supporting documentation.
Applying for an Indirect Cost Rate

- Must seek approval within 90 days of grant approval
- Where?
  - Cognizant Agency (determined based on Fed. Agency providing largest amount of direct Fed. Funds for non-profits; gov’t orgs assigned by OMB)
  - If ETA grant is only Federal award, DOL is cognizant
Applying for an Indirect Rate

- DOL’s Division of Cost Determination
- Telephone: 202-693-4100
- “A Guide for Indirect Cost Rate Determination”
Relationships
Administrative, Program, Direct and Indirect Costs

- Complex and inter-connected
  - Not all direct costs are program
  - Not all administrative costs are indirect
  - Not all indirect costs are administrative

See Handout A – WIA Admin & Program Costs
Administrative Costs May be BOTH Direct & Indirect

$550,000 Total Grant Award

$475,000 Direct

$55,000 Admin.

$75,000 Indirect
Administrative Costs ≠ Indirect Costs

- For ETA grants, administrative cost limits are based on a percent of the total grant award.
- Indirect cost rates are a percent of a specific direct cost base.
Grantee Indirect Costs Example

[Approved Indirect Cost Rate of 50%]

- Organization-wide Direct Salaries & Wages are $300,000
- Total Indirect Costs to be spread to all fund sources are $150,000
- ETA Grant is $550,000
- ETA Grant Direct Salary & Wages are $150,000
- Indirect Costs Charged to ETA Grant are $75,000
Administrative Costs vs. Indirect Costs

- ETA Grant is $550,000
- Administrative Limit is 10%
- ETA Grant Administrative Costs are limited to $55,000 (10% x $550,000)
- Indirect costs chargeable to grant are $75,000
Reporting appropriately

- Review costs of your organization that comprise indirect cost pool

- Break out costs between program and administrative
  - Using the WIA definition of Administrative Costs

- Example follows
Pool of Indirect Costs

- Accounting System  A
- Procurement System  A
- Director  P&A
- Receptionist  P&A
- Facilities (rent, insurance, maintenance and utilities costs)  P&A
- Assume this calculates to 65% administrative and 35% program
Then,

- Apply the 65%-35% ratio to the total indirect costs of $75,000 for the grant, as calculated in the example used in the slides we have been using.

- **Indirect Administration** = $48,750
- **Indirect Program** = $26,250
Total Grant Costs

- All Administrative Costs
  - Both Direct and Indirect

PLUS

- All Program Costs
  - Both Direct and Indirect
## Total Grant Costs

<table>
<thead>
<tr>
<th>Total Reported Expenditures</th>
<th>$550,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Program Costs</td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$468,750</td>
</tr>
<tr>
<td>Indirect</td>
<td>$26,250</td>
</tr>
<tr>
<td>Total Administrative Costs</td>
<td></td>
</tr>
<tr>
<td>Direct</td>
<td>$6,250</td>
</tr>
<tr>
<td>Indirect</td>
<td>$48,750</td>
</tr>
</tbody>
</table>
Overall Considerations
Reporting Admin. and Indirect Costs

- Both administrative and indirect costs are accounted for in the General Ledger.
- Both are included on the ETA 9130 under total expenditures.
- Administrative costs are specifically broken out from total expenditures (line 10f).
Documentation for Cost Classification

- Supporting records/documents for both direct and indirect costs (Invoices, certified time sheets, actual receipts)
- Time distribution method (based only on actual time worked)
- Cost allocation method for non-personnel costs
Resources and Assistance

For more information and assistance:

- 20 CFR 667.220
- 20 CFR 667.300
- OMB Circulars and Cost Principles
  - [http://www.whitehouse.gov/omb/circulars/](http://www.whitehouse.gov/omb/circulars/)
- Online training modules (Workforce3One)
- Technical Assistance Guide:
  - [www.doleta.gov/sga/pdf/FinalTAG_August_02.pdf](http://www.doleta.gov/sga/pdf/FinalTAG_August_02.pdf)
- DOL’s Office of Cost Determination
Additional Web Site Addresses

- ETA Financial Reporting Formats
  www.doleta.gov/grants/financial_reporting.cfm
- Administrative Requirements-29 CFR Parts 95 and 97
  http://ecfr.gpoaccess.gov
- DOL Advisories and Memorandums (TEG L/TEN)
  http://wdr.doleta.gov/directives/