



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF SPECIAL EDUCATION AND REHABILITATIVE SERVICES
REHABILITATION SERVICES ADMINISTRATION

COMMISSIONER'S MEMORANDUM
CM 04-05
Date: May 27, 2004

TO: RSA Senior Management Team

FROM: Joanne Wilson *Joanne Wilson*
Commissioner

SUBJECT: Allocating Title VII, Part C Costs at Centers for Independent Living

The purpose of this memorandum is to clarify the requirements for allocating indirect costs to Federal grant awards received by Centers for Independent Living (CILs), particularly with respect to awards received under title VII, Part C of the Rehabilitation Act of 1973, (the Act) as amended. Regional Offices are instructed to distribute this information via an Identical Information Memorandum to centers for independent living, DSUs, statewide independent living councils and other appropriate IL stakeholders in their regions.

Allocability Of Direct And Indirect Costs

The Education Department General Administrative Regulations (EDGAR), in 34 CFR 74.27, provide that the allowability of costs is determined in accordance with the cost principles applicable to the entity incurring the costs. Office of Management and Budget (OMB) Circular A-122, "Cost Principles for Non-Profit Organizations" govern cost principles for non-profit organizations. OMB Circular A-122 provides that the Federal Government bear its fair share of costs, except where restricted or prohibited by law, and that in order to be allowable under an award, costs charged must be allocable to that award. A cost is allocable to a particular grant award in accordance with the relative benefits received under that award. See OMB Circular A-122, Purpose, and Attachment A, Paragraph A.4.a.

When allocating costs to an award, Centers for Independent Living (CILs) must determine whether these costs are direct or indirect expenses.¹ Direct costs are those that can be identified specifically with a particular award to an organization. Costs identified specifically with particular awards may not be charged to other awards. See OMB Circular A-122, Attachment A,

¹ Annually, each CIL prepares an Internal Revenue Service Form 990, Return of Organization Exempt From Income Tax, or a short Form 990EZ. CILs may find the classification of functional expenses in the Form 990 useful for classifying costs as either direct or indirect.

Paragraph B.1. A CIL may not charge all of its costs as direct costs to the Title VII, Part C grant award unless that grant award is the center's only source of funding.

Indirect costs are those that have been incurred for common, or organization-wide, objectives and cannot be readily identified with a particular grant award. Typical examples of indirect costs are those associated with operating and maintaining facilities and general administration expenses, such as the salaries and expenses of executive officers, personnel administration, and accounting. See OMB Circular A-122, Attachment A, Paragraph C.1. and 2. Indirect costs must be allocated among different funding sources using either an indirect cost rate or a cost allocation plan in accordance with OMB Circular A-122 and the U.S. Department of Education's (ED's) (or other cognizant Federal agency's) procedures for the approval of indirect cost rates or the approval of cost allocation plans.

Indirect Cost Rates

Indirect cost rates are approved via the use of one of the acceptable methods for determining indirect costs outlined in OMB Circular A-122, Attachment A, Paragraph D. Generally, the most appropriate method for determining indirect costs for a CIL would be either the simplified allocation method or the direct allocation method. Indirect cost rate proposals are submitted to the grantee's cognizant Federal agency in accordance with the procedures outlined in OMB Circular A-122, Attachment A, Paragraph E. The grantee's cognizant Federal agency is generally the Federal agency with the largest dollar value of direct Federal awards to the organization. This does not include pass-through funds or sub-awards. Indirect cost rate proposals are submitted and approved for an annual period, based on the organization's accounting year.²

Cost Allocation Plans

The structure and functions of a non-profit organization may be the determining factor in whether an indirect cost rate or a cost allocation plan is more appropriate for charging indirect costs. Although OMB Circular A-122 does not specifically discuss cost allocation plans, non-profit organizations may submit a cost allocation plan to their cognizant Federal agency, in lieu of having an approved indirect cost rate. A cost allocation plan is a narrative document whereby a Federal agency would approve the methodology and distribution base for allocating indirect costs among funding sources, not the exact percentages of allocation used. Once approved, the plan would not need to be resubmitted unless there is a change in the overall methodology being used by the grantee, or a change in the organization that affects the methodology. A CIL may not allocate its indirect costs directly to the Title VII, Part C grant award unless it has an approved cost allocation plan. As discussed previously, a CIL may not charge all of its costs to the Part C grant award unless that grant award is the center's only source of funding.

Submission of Indirect Cost Rate Proposals or Cost Allocation Plans

For the majority of CILs funded under Title VII, Part C of the Act, it is likely that the ED is the cognizant Federal agency. If that is the case, CILs must submit an indirect cost rate proposal – in accordance with EDGAR provisions 34 CFR 75.560 – 75.564 and with OMB Circular A-122, Attachment A, Paragraph E.2.b. and c. – or a cost allocation plan to ED for approval. If a Federal

² See 34 CFR 75.563 for requirements on the computation of a restricted indirect cost rate when a grant is awarded under a statute that prohibits the use of Federal funds to supplant non-Federal funds. Title VII, Part C has no such prohibition.

agency other than ED is the cognizant agency, meaning that agency provides more direct funding to the CIL than does ED, then the proposal must be submitted to the cognizant Federal agency.

If a CIL does not have an indirect cost rate or cost allocation plan currently approved, submission of proposals or plans must occur **before the end of the current grant year ending September 30, 2004**, since **approved** indirect cost rates or cost allocation plans should be in place in order to charge indirect costs to a CIL's Part C grant. (However, the indirect cost proposal or cost allocation plan coverage would coincide with the CIL accounting year.) A CIL's failure to submit a cost allocation plan or indirect cost rate for approval could lead to an audit exception and result in a monetary disallowance. If ED is the cognizant Federal agency, grantees must submit indirect cost rate proposals or cost allocation plans to:

Indirect Cost Group
Financial Improvement & Post Audit Operations
Office of the Chief Financial Officer
U.S. Department of Education
400 Maryland Ave., S.W., Rm. 4W103
Washington, D.C. 20202-4201

For instructions and technical assistance on preparing the submission, CILs may call the Indirect Cost Group at (202) 708-7770. Examples of cost allocation plans and indirect cost rate proposals can be found on RSA's website at:

<http://www.ed.gov/programs/cil/legislation.html>

If there are questions specific to a CIL's participation in the Title VII, Part C Program, the grantee should contact the Regional Office of RSA. Each CIL must provide the Regional Office of RSA with information confirming that the CIL has submitted a cost allocation plan or an indirect cost rate proposal to ED (or other cognizant Federal agency) for approval, and the date of that submission, by the end of the current grant year on September 30, 2004.

cc: Ted Mueller, Supervisor, Indirect Cost Group, OCFO