

Chapter 50 – Federal Compliance

50.20 Cost Allocation and Indirect Cost Recoveries

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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.

50.20.50 About federal costs and cost allocation principles

50.20.50.a The United States Office of Management and Budget (OMB) has established uniform principles for determining the allowability of costs incurred by nonfederal entities expending federal awards. In addition, these principles provide requirements for the development and submission

of cost allocation plans and indirect rate cost proposals. Many state agencies perform functions and activities that are associated with federal assistance programs or provide central service support to federal assistance programs. As such, they are subject to provisions of the cost principles applicable to their activities.

50.20.50.b

Over the years, the federal OMB issued several circulars related to cost allocation. These circulars are effective for awards issued **before December 26, 2014**:

- A-21 Cost Principles for Educational Institutions
- A-87 Cost Principles for State, Local and Indian Tribal Governments
- A-122 Cost Principles for Non-Profit Organizations

In 2013, **effective December 26, 2014**, the OMB issued the Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance) to clarify and streamline the federal guidance. The Uniform Guidance supersedes OMB Circulars: A-21, A-87, and A-122.

The Uniform Guidance (effective December 26, 2014) establishes principles and standards related to cost allocation and indirect costs:

1. Indirect (F&A) cost identification and assignment, and rate determination for institutions of higher education;
2. Indirect (F&A) cost identification and assignment, and rate determination for nonprofit organizations;
3. State/local government and Indian tribe-wide central service cost allocation plans;
4. Public assistance cost allocation plans; and
5. State and local government and Indian tribe indirect cost proposals.

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 Division of the Office of the State Controller 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 the Uniform Guidance.
2. Ensure that the following information is made available for inclusion in the state plan:
 - A current narrative description of the service;
 - A balance sheet;
 - A statement of revenue and expense with revenues broken out by source, e.g., regular billings, interest earned, etc.;
 - A listing of all non-operating transfers into and out of the account;
 - A description of the procedures (methodology) used to charge service costs to users including how billing rates are determined;
 - A schedule of current rates; and
 - A schedule comparing total revenues (including imputed revenues)

generated by the service to the allowable costs of the service with an explanation of how variances will be handled. Revenues must include all revenues generated. If some users were not billed or not billed the full rate for the service, a schedule showing the full imputed revenues associated with these users must be provided. Expenses must be broken out by object categories.

50.20.75 Responsibilities of central fringe benefits activities

Central, fringe benefits activities, including post-retirement health insurance plans, have the following responsibilities:

1. Understand and adhere to the requirements of the Uniform Guidance.
2. Ensure that the following information is made available for inclusion in the state central services plan:
 - Description of fringe benefits provided to covered employees and the overall annual cost of each type of benefit;
 - Current fringe benefit policies;
 - Procedures used to charge or allocate the costs of benefits to benefited activities; and
 - For post-retirement health insurance plans [1] the government's unit funding policies, e.g., legislative bills, trust agreements, or state-mandated contribution rules, if different from actuarially determined rates; [2] the post-retirement health insurance plan's costs accrued for the year; [3] the amount funded and dates of funding; [4] a copy of the current actuarial report (including the actuarial assumptions); [5] the plan trustee's report; and [6] a schedule showing the value of interest costs associated with late funding.

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.