

<b>Volume No. 1 – Policies and Procedures</b>	<b>TOPIC NO.</b>	<b>20705 – Cardinal</b>
<b>Section No. 20700 – Indirect Cost Recovery</b>	<b>TOPIC</b>	<b>Indirect Cost Recovery</b>
	<b>DATE</b>	<b>April 2015</b>

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## Introduction

### Overview

#### Introduction

Agencies and institutions recover indirect costs from grants and contracts by completing a cost allocation plan and/or an indirect cost rate proposal. This topic assists agencies and institutions in meeting the Commonwealth’s indirect cost recovery requirements as set forth in the *Appropriation Act*, Section 4-2.03.a.

This topic is organized into two parts as follows:

#### Indirect Cost Recovery from Grants and Contracts

- Establishes the policies and procedures for agencies to follow in recovering indirect costs from grants and contracts. The role of the Department of Accounts (DOA), central service agencies, and agencies/institutions is outlined.

#### Nongeneral, Nonfederal Funded Agencies

- Explains the rationale of full costing statewide indirect cost recovery and the role of DOA and the Department of Planning and Budget (DPB) in both the preparation of the full costing assessment schedule and the resulting Appropriation Act transfers.

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## Definitions

### Agency Versus Statewide Indirect Costs

The following table compares the differences between Agency and Statewide Indirect Costs.

<b>Agency Indirect Costs ...</b>	<b>Statewide Indirect Costs ...</b>
... are incurred by agencies.	... are incurred by central service agencies.
... have administrative costs borne by the agency.	...are calculated in Federal SICAP.
... benefit more than one cost objective.	... are provided to agencies by DOA.

### Allocation Plans

The *Full-Costing Statewide Indirect Cost Allocation Plan* is compared to the *Federal Statewide Indirect Cost Allocation Plan* as follows:

<b>Plan Type</b>	<b>Preparation</b>	<b>Allocation</b>	<b>Governance</b>	<b>Support</b>	<b>Product</b>
<b>Full Costing</b>	DOA	General Fund cost of central service agencies	NOT governed by Federal guidelines	Determines support to nongeneral, nonfederal programs	Assessment Schedule (Appropriation Act transfers section)
<b>Federal</b>	DOA	General Fund costs of central service agencies	By Federal guidelines 2CFR, Part 200	Determines support to Federal programs	Fixed costs by agency or State-wide indirect costs to be used in agency rate calculations

### Central Service Agency

A state agency rendering various support services to other state agencies in the Commonwealth. These services may or may not be provided with charges to the recipient agency.

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## Definitions, Continued

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**Central Service Cost Allocation Plan** Cost allocation plan prepared by DOA and referred to as the *Statewide Indirect Cost Allocation Plan*, (SICAP) that documents, identifies, accumulates, and allocates allowable costs of services provided by central service agencies to benefiting agencies and institutions.

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**Cognizant Agency** Federal agency responsible for reviewing, negotiating, and approving a specific state agency or institution’s cost allocation plan or indirect cost rate proposal.

Example: The Department of Health and Human Services is the cognizant agency for all state central service cost allocation plans.

The federal Office of Management and Budget (OMB) publishes a list of all cognizant agencies which can be obtained by contacting:

Office of Federal Financial Management  
 Financial Standards and Reporting Branch  
 Office of Management and Budget  
 Washington, DC 20503  
 Telephone 202-395-3993

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**Direct Versus Indirect Costs** Direct Costs  
 Expenditures identified to a final (or singular) cost objective.

Indirect Costs

- Expenditures incurred for a joint purpose that benefit more than one cost objective.
- Expenditures are divided between Agency and Statewide.

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## Definitions, Continued

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**Indirect Cost Recoveries** Funds received for indirect costs that are reimbursed or "recovered" from grants. Indirect cost recoveries are identified as either agency or statewide.

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**2CFR, Part 200** *The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*

- Published by Federal Office of Management and Budget.
  - Establishes the principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and federally-recognized Indian tribal governments (governmental units).
  - Establishes the principles for determining costs applicable to grants, contracts, and other agreements with educational institutions.
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## Indirect Cost Recovery From Grants and Contracts

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### Policy

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**Policy**

These policies apply to all State agencies and institutions planning to accept or currently administering a grant or contract.

The *Appropriation Act*, Section 4-2.03.a., Indirect Cost, states:

*Each state agency, including institutions of higher education, which accepts a grant or contract, shall recover full statewide and agency indirect costs unless prohibited by the grantor agency or exempted by provisions of this act.*

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### Responsibility

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**Introduction**

Responsibility and/or functions performed by

- DOA,
- Central Service Agencies, and
- Agencies & Institutions Administering Grants or Contracts

are as follows:

**DOA**

The State Comptroller is authorized in the *Appropriation Act* to issue regulations to carry out the provisions related to indirect cost recovery, including the establishment of criteria to certify that agencies are in compliance with these provisions.

In support of indirect cost recovery, DOA will perform the following functions:

1. Maintain a technical understanding of indirect cost allocation plans and indirect cost rate proposals.
  2. Prepare and negotiate the federal *Statewide Indirect Cost Allocation Plan* (SICAP) with the federal Department of Health and Human Services (DHHS).
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**Responsibility, Continued**

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3. Notify agencies and institutions of their allocation of costs in the federal SICAP, once approved by DHHS.
  4. Review and monitor indirect cost recoveries recorded in Cardinal to ensure accurate and timely reporting of indirect cost recoveries.
  5. Prepare year end adjusting entries to remove the duplicate recording of revenue for purposes of financial statement preparation (agency only).
  6. Provide agency assistance in the development and negotiation of indirect cost allocation plans and indirect cost rate proposals.

**Central Service Agencies**

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All **central service agencies**, or other agencies submitting data for inclusion in the statewide indirect cost allocation plan, will perform the following functions:

1. Provide the required data to DOA in a timely manner, accompanied by the standard SICAP certification form signed by the agency head or his or her designee, attesting to the integrity of the data;
2. Maintain work papers supporting the data provided to DOA for a period of three years commencing with the submission of said data to DOA; and
3. Make available all related work papers upon request to DOA, Auditor of Public Accounts or federal reviewers.

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## Responsibility, Continued

### Agencies & Institutions Administering Grants or Contracts

State agencies and institutions will perform the following functions:

1. Prepare indirect cost allocation plans or indirect cost rate proposals in accordance with federal cost principles.
2. Maintain working papers supporting the development of timely indirect cost rate proposals or cost allocation plans, and make these working papers available to the Auditor of Public Accounts and DOA's staff for review upon request.
3. Record indirect cost recoveries and all related transfer entries if appropriate (agencies only), at least on a quarterly basis, to the appropriate fund and account code according to accounting procedures established by DOA (See **Recording Indirect Cost Recoveries** in this CAPP – Cardinal topic).
4. Ensure that adequate information is available to monitor indirect cost recovery efforts.
5. Complete the Indirect Cost Recovery Reconciliation Attachments included with the Fiscal Year Closing Procedures (agencies only).
6. Maintain, and make available for review upon request, a listing of all grants and contracts.
7. Only Tier III institutions are required to provide the following by institution number to DOA by the end of July for each preceding fiscal year:
  - Total expenditures for fiscal year to date for all funds and personal service cost expenditures in account code 5011xx0. (See Note A)
  - Net expenditures by institution for fiscal year to date for selected account codes 5012970, 5013970, 5015970, 5021970, 5022970, and 5023970 by fund. (See Note A)
  - Net Revenue by fund for the fiscal year to date recorded in account code 4009071, Recovery of Statewide Indirect Cost Grant/Contract Administration, 4009076, Recovery of Statewide Indirect Cost Grant/Contract Administration – ARRA, 4009077, Recovery of Agency Indirect Cost Grant/Contract Administration – ARRA, and 0409073, Recovery of Higher Education Institution Indirect Cost Grant/Contract Administration.
  - Listing of expenditures, where the payment has been made to other state agencies/institutions. Include in the listing the fiscal month the expenditure was recorded, the institution's number, the transaction amount, fund, program, account code, and agency/institution name to which the payment was made.

**Note:** If the net expenditures reported on Cardinal for fiscal year end June 30 for these account codes are complete and accurate, DOA should be able to use Cardinal reports for this information. Otherwise, these items must be submitted. In either case, the Tier III institution must let DOA know whether to obtain this information from Cardinal or whether it will be provided separately.

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## Procedures

### Indirect Cost Rate Proposal or Cost Allocation Plan

Agencies or institutions planning to accept or currently administering a federally funded grant or contract—including those agencies and institutions supported entirely from nongeneral fund appropriations— must prepare and submit to its federal cognizant agency an indirect cost rate proposal or cost allocation plan in accordance with federal requirements. This is done either annually or as required by the cognizant agency.

According to the federal Office of Management and Budget (OMB), if sub-recipients of federal grants do not have a federal cognizant agency, State grantor agencies are responsible for reviewing and approving rates used to reimburse sub-recipients' indirect costs.

The proposed indirect cost rate established in the indirect cost rate proposal or the amounts included based on a cost allocation plan must include full statewide and agency indirect costs as allowed by federal cost principles.

Agencies and institutions must apply the indirect cost rate, which is negotiated between the State agency and its federal cognizant agency, to all grants and contracts unless prohibited by the grantor or exempted by DOA. (See *General Exemption Section*.)

### Central Service Agencies & Internal Service Funds

The costs associated with central service agencies may be charged to federal grants as either a direct or indirect cost. If a central service cost is direct billed to a benefiting agency, the same or like costs cannot be allocated indirectly in the SICAP.

The federal SICAP allocates allowable indirect central service costs according to 2CFR, Part 200. Unallowable costs identified in 2CFR, Part 200 are not to be allocated in the federal SICAP or included in the calculation of direct billing rates.

The SICAP will include all central service costs claimed either as billed or allocated costs under federal awards with the required documentation as stated below. Costs of central services omitted from the plan will not be reimbursed.

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## Procedures, Continued

**Central Service Agencies' Required Documentation** Central service agencies are required by federal 2CFR, Part 200, to submit to DOA for inclusion in the federal SICAP the following detailed documentation:

<b>Internal Service Funds (Budget of \$5 million or more)</b>	<ol style="list-style-type: none"> <li>1. Description of the service</li> <li>2. Fund Statement of Net Position</li> <li>3. Revenue/expenditures statement, with revenues by source</li> <li>4. List of nonoperating transfers</li> <li>5. Description of billing procedures (methodology) used to charge costs to users</li> <li>6. Schedule of current rates</li> <li>7. Schedule comparing full revenues (including imputed revenues) by service to the allowable costs</li> <li>8. Explanation of how variances between revenue and expenses will be handled</li> <li>9. Documentation that revenue reported includes all revenues generated by the service including unbilled and uncollected revenue</li> <li>10. Expenses reported by cost category</li> <li>11. Amount of working capital reserve if any</li> </ol>
<b>Self Insurance Funds</b>	<ol style="list-style-type: none"> <li>1. Fund Statement of Net Position</li> <li>2. Statement showing fund income and fund outlays, including a summary of billings and claims paid by agency</li> <li>3. Listing of all non-operating transfers into and out of the fund</li> <li>4. The types of risks covered by the fund</li> <li>5. An explanation of how the level of fund contributions are determined, and actuarial report</li> <li>6. Description of procedures used to charge or allocate fund contributions to benefiting activities</li> <li>7. Explanation of reserve levels in excess of claims paid, submitted but not adjudicated, and incurred but not submitted</li> </ol>
<b>Fringe Benefits</b>	<ol style="list-style-type: none"> <li>1. Overall annual cost of each benefit</li> <li>2. Current fringe benefit policies</li> <li>3. Procedures used to charge or allocate the costs to benefiting activities</li> </ol>

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**Procedures, Continued**

<b>Pension and Post-Retirement Health Benefit Costs</b>	<ol style="list-style-type: none"> <li>1. Funding policies</li> <li>2. Pension plan’s costs accrued for a year</li> <li>3. Amount funded, and dates of funding</li> <li>4. Copy of actuarial report</li> <li>5. Plan trustee’s report</li> <li>6. Schedule showing the value of the interest cost associated with any late funding</li> </ol>
<b>Other Billed Central Service Activity Not Identified Above</b>	The same documentation as required for Internal Service Funds is to be completed and maintained. But, it is not required to be submitted to DOA unless specifically requested to do so by DOA, APA or federal reviewers.
<b>Reconciliation of Retained Earnings</b>	All central service agencies listed in the applicable agency listing of the Direct Billed Central Services Attachment of the Financial Reporting Directive must submit a Reconciliation of Retained Earnings file for each internal service fund or self insurance fund per request of the U.S. Department of Health and Human Services.

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**Over/Under Recoveries of Internal Service Funds**

Adjustments are required to be made for the over/under recoveries of Internal Service Funds. These adjustments can be made through the yearly federal SICAP in those instances where the over/under recovery does not exceed \$500,000.

Amounts that are not adjusted through the annual SICAP will be adjusted in the following manner subject to federal approval:

- cash repayment to the federal government
- credits to the amounts charged to the individual programs, or
- credit adjustment to future billing rates

**DOA will notify central service agencies of the following:**

- a) any over/under recoveries that are not adjusted through the SICAP
- b) any cost allocated to these internal service fund cost pools in the SICAP (cross allocations) that are not allocated to benefiting agencies. These costs allocated to the internal service funds in the SICAP are internal service fund costs and may be included in the calculation of the amount of over/under recovery.

Central Service agencies that manage internal service funds where an adjustment is necessary, will notify DOA as to the method and timeframe of repayment. DOA will coordinate any required adjustment with DHHS.

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## Recording Indirect Cost Recoveries in Cardinal: Agencies Only

**Overview** All indirect cost recoveries from federal grants and contracts received by agencies are subject to the following procedures.

**Statewide Indirect Cost Recoveries** The following procedures apply to Statewide Indirect Cost Recoveries.

Step	Action
1	Prepare a Deposit Ticket (DT) to deposit the drawdown.
2	Record Indirect Cost Drawdown in Cardinal using the Accounts Receivable module: <ul style="list-style-type: none"> <li>Record the drawdown in the federal fund 10000, account code 4009071 for <b>Non-Stimulus</b> (ARRA) funds.</li> <li>Record the drawdown in the applicable federal ARRA fund, account code 4009076 for <b>Stimulus</b> (ARRA) funds.</li> </ul>
3	Transfer immediately the drawdown to either the general fund 01000 or special fund 02800 using the criteria and procedures as follows:

### IF THE STATEWIDE INDIRECT COST IS NOT APPROPRIATED TO THE AGENCY ...

Step	Action
1	Prepare a General Ledger Journal.
2	Record the expenditures in the federal fund 10000 (for <b>Non-Stimulus</b> (ARRA)) or the applicable ARRA fund (for <b>Stimulus</b> (ARRA)) by debiting the expenditure using account code 5014810 (Statewide Indirect Recoveries) and the applicable program. Credit cash account 101010.
3	Record the revenue in the general fund 01000 by debiting the cash account 101010, and crediting account code 4009071 for <b>Non-Stimulus</b> (ARRA) or 4009076 for <b>Stimulus</b> (ARRA).

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## Recording Indirect Cost Recoveries in Cardinal: Agencies Only, Continued

### IF THE STATEWIDE INDIRECT COST IS APPROPRIATED TO THE AGENCY (As Approved in the Appropriation Act) ...

Step	Action
1	Prepare a General Ledger Journal.
2	Record the expenditures in the federal fund 10000 (for <b>Non-Stimulus</b> (ARRA)) or the applicable ARRA fund (for <b>Stimulus</b> (ARRA)) by debiting the expenditure using account code 5014810 (Statewide Indirect Recoveries) and the applicable program. Credit cash account 101010.
3	Record the revenue in the special fund 02800 by debiting the cash account 101010, and crediting account code 4009071 for <b>Non-Stimulus</b> (ARRA) or 4009076 for <b>Stimulus</b> (ARRA).

#### Agency Indirect Cost Recoveries

The following procedure applies to Agency Indirect Cost Recoveries

Step	Action
1	Prepare a DT to deposit the drawdown.
2	Record drawdown in Cardinal using the Accounts Receivable module: <ul style="list-style-type: none"> <li>Record the drawdown in the federal fund 10000, account code 4009070 for <b>Non-Stimulus</b> (ARRA) funds.</li> <li>Record the drawdown in the applicable federal ARRA fund, account code 4009077 for <b>Stimulus</b> (ARRA) funds.</li> </ul>
3	Transfer immediately the drawdown to the special fund 02800 by preparing a General Ledger Journal as follows:
4	Record the expenditures in the federal fund 10000 (for <b>Non-Stimulus</b> (ARRA)) or the applicable ARRA fund (for <b>Stimulus</b> (ARRA)) by debiting the expenditure using account code 5014820 (Agency Indirect Cost Recoveries)* and the applicable program. Credit cash account 101010.
5	Record the revenue in the special fund 02800 by debiting the cash account 101010, and crediting account code 4009070 for <b>Non-Stimulus</b> (ARRA) or 4009077 for <b>Stimulus</b> (ARRA).

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**Procedures for Recording Statewide Indirect Cost Recoveries**

**Statewide Unappropriated**

	<b>Action by Agency</b>	<b>Doc</b>	<b>General Fund 01000</b>	<b>Special Fund 02800</b>	<b>Federal Fund 10000 for Non-Stimulus (ARRA) Applicable ARRA Fund for Stimulus (ARRA)</b>
1	DRAWDOWN (Based on cost allocation plan or rate)	DT			Debit cash – 101010 Credit revenue (account code 4009071 for Non-Stimulus (ARRA) or 4009076 for Stimulus (ARRA))
2a	REPORTING TO GRANT	GL Journal			Debit expenditure – 5014810* Credit cash – 101010
2b	REPORTING TO GRANT	GL Journal	Debit cash – 101010 Credit revenue (account code 4009071 for Non-Stimulus (ARRA) or 4009076 for Stimulus (ARRA))		

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**Statewide Appropriated**

	Action by Agency	Doc	General Fund 01000	Special Fund 02800	Federal Fund 10000 for Non-Stimulus (ARRA) Applicable ARRA Fund for Stimulus (ARRA)
1	DRAWDOWN (Based on cost allocation plan or rate)	DT			Debit cash – 101010 Credit revenue (account code 4009071 for Non-Stimulus (ARRA) or 4009076 for Stimulus (ARRA))
2a	REPORTING TO GRANT	GL Journal			Debit expenditure – 5014810* Credit cash – 101010
2b	REPORTING TO GRANT	GL Journal		Debit cash – 101010 Credit revenue (account code 4009071 for Non-Stimulus (ARRA) or 4009076 for Stimulus (ARRA))	
3	APPROPRIATION (Submit request in Budget Execution Module of PB System for approp. of amount of revenue recorded in Fund 02800)			DPB Budget Journal Entry  Debit Surplus Approp. Credit Approp.	
4	RECORD ACTUAL EXPENDITURES (When approp. is received from DPB, code and record expenditures as “regular” account codes, e.g., salaries, services, etc., in fund 02800)			Debit expenditure Credit cash - 101010	

\* To make this entry you must have received an appropriation from DPB in Fund 10000 for Non-Stimulus (ARRA) or the applicable ARRA fund for Stimulus (ARRA).

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**Procedures for Recording Agency Indirect Cost Recoveries**

	<b>Action by Agency</b>	<b>Doc</b>	<b>General Fund 01000</b>	<b>Special Fund 02800</b>	<b>Federal Fund 10000 for Non-Stimulus (ARRA) Applicable ARRA Fund for Stimulus (ARRA)</b>
1	DRAWDOWN (Based on cost allocation plan or rate)	DT			Debit cash – 101010 Credit revenue (account code 4009070 for Non-Stimulus (ARRA) or 4009077 for Stimulus (ARRA))
2a	REPORTING TO GRANT	GL Journal			Debit expenditure – 5014820* Credit cash – 101010
2b	REPORTING TO GRANT	GL Journal		Debit cash – 101010 Credit revenue (account code 4009070 for Non-Stimulus (ARRA) or 4009077 for Stimulus (ARRA))	
3	APPROPRIATION (Submit request in Budget Execution Module of PB System for approp. of amount of revenue recorded in Fund 02800)			DPB Budget Journal Entry  Debit Surplus Approp. Credit Approp.	
4	RECORD ACTUAL EXPENDITURES (When approp. is received from DPB, code and record expenditures as “regular” account codes, e.g., salaries, services, etc., in fund 02800)			Debit expenditure Credit cash - 101010	

\* To make this entry you must have received an appropriation from DPB in Fund 10000 for Non-Stimulus (ARRA) or the applicable ARRA fund for Stimulus (ARRA).

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## Recording Indirect Cost Recoveries in Cardinal: Agencies Only, Continued

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**Accountability** These procedures provide complete accountability for indirect cost recovery and the basis for documenting the indirect cost expense in the federal fund—resulting in indirect cost recovery revenue being double recorded in Cardinal.

Agencies must recognize this and ensure the total of indirect cost recovery revenue in both the **general fund 01000** and **special fund 02800** (account code 4009071 for Non-Stimulus (ARRA)/4009076 for Stimulus (ARRA) and 4009070 for Non-Stimulus (ARRA)/4009077 for Stimulus (ARRA), respectively) is equal to the indirect cost recovery revenue recorded in the **federal fund 10000** for Non-Stimulus (ARRA) or the applicable ARRA fund for Stimulus (ARRA). Any difference should represent revenue in the federal fund pending transfer. DOA will eliminate this duplication for financial reporting purposes.

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**Appropriation** Appropriations to support the expenditures in the **federal fund 10000, the applicable ARRA funds, and special fund 02800** must be obtained from the Department of Planning and Budget (DPB) by submitting a request in the Budget Execution Module in the Performance Budgeting System. When the appropriation is received for the special fund, actual expenditures should be recorded in the "regular" account codes (e.g., salaries, services, etc.) in **fund 02800**.

Questions regarding the procedures for obtaining the proper appropriation for indirect cost should be addressed by each agency to its DPB budget analyst.

Other agency level ChartFields in Cardinal such as Cost Center and Task may also be utilized by agencies.

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## Recording Indirect Cost Recoveries in Cardinal: Institutions of Higher Education

**Appropriation** According to the *Appropriation Act*, Section 4-2.03c, indirect cost recoveries for all institutions of higher education shall be appropriated according to the following provisions:

- a. Seventy percent shall be retained by the institutions as an appropriation of funds by the General Assembly for the conduct and enhancement of research and research-related requirements. This portion of the indirect cost recoveries shall be recorded in **fund 03030, Program 1100XX**.
- b. Thirty percent of the indirect cost recoveries for the level of sponsored programs authorized in Part 1 of Chapter 1042 of the Acts of Assembly of 2003, shall be included in the educational and general revenues of the institutions to meet administrative costs. This portion of the indirect cost recoveries shall be recorded in **fund 03000, Program 1000XX**.
- c. Institutions of higher education may retain 100 percent of the indirect cost recoveries related to research grants and contract levels in excess of levels authorized in Chapter 1042 of the Acts of Assembly of 2003. This provision is included as an additional incentive for increasing externally funded research activities. This portion of the indirect cost recoveries shall be recorded in **fund 03160, Program 1100XX**. Please consult future *Appropriation Acts* for continuation of this provision.

Note: Any indirect cost recoveries associated with Stimulus (ARRA) must be recorded in the applicable ARRA funds to maintain the transparency of the data.

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## Recording Indirect Cost Recoveries in Cardinal: Institutions of Higher Education, Continued

### Recording Revenue

All indirect cost recoveries received by institutions of higher education must be recorded in the following manner:

All **statewide** indirect cost recoveries must be recorded into the Higher Education Operating Fund using account code 4009071 for Non-Stimulus (ARRA) or 4009076 for Stimulus (ARRA). If an institution cannot record statewide indirect cost recoveries separately from institution indirect cost recoveries as the funds are received, an adjustment must be made each quarter in order to properly reflect the statewide portion of the indirect cost recovery.

All **higher education institution** indirect cost recoveries must be recorded into the Higher Education Operating Fund using account code 4009073 for Non-Stimulus (ARRA) or 4009077 for Stimulus (ARRA).

The following is an example for recording Higher Education Institution indirect cost recoveries using ARRA funds. The dollar amounts used are for demonstration purposes only.

Description	Account	Fund	Amount	
Grant funded payroll	Debit -5011XX0 (Personal Svcs) Credit – 101010 (Cash)	03XXX - ARRA	\$10,000	
Record IDC	Debit – 5087000 (IDC) Credit – 101010 (Cash)	03XXX - ARRA	\$4,000	
(40% of Grant funded Payroll)	Debit – 101010 (Cash) Credit - 4009076 (ARRA Statewide IDC)	03000, Program 1000XX** (where xx is the service area)	\$1,600	30%
	Debit – 101010 (Cash) Credit - 4009077 (ARRA Higher Ed IDC)	03030, Program 1100XX**	\$2,400	70%
Drawdown Grant Funds	Debit – 101010 (Cash) Credit – 40XXXXXX (where XXXXXX is the Grant CFDA#)	03XXX - ARRA	\$14,000	

\*\*Under certain conditions, funds will be recorded in Fund 03160.

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## Recording Indirect Cost Recoveries in Cardinal: Institutions of Higher Education, Continued

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The recording of statewide and institution recoveries into the Higher Education Operating Fund is for information purposes only and is not intended to conflict with the provisions of the *Appropriation Act* regarding the use of the funds by higher education institutions.

**Note:** Account code 4009074, *Administrative Allocation for Student Scholarships and Loans*, was established to record the deposit of overhead and **administrative allowances** received from loan, scholarship, and work programs such as PELL, SEOG, and federal work study. This account code is used only to record administrative allowances received from various financial aid programs.

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### General Exemption

**Hardship** If an agency or institution believes that adherence to these procedures would create an undue hardship because of extraordinary circumstances or conditions—such as the cost to develop an agency indirect cost proposal exceeds anticipated recoveries—the agency head may request the State Comptroller to amend or modify the requirements.

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**Written Request** The written request shall include an explanation of the circumstances or conditions and the exact nature of the proposed modification. In turn, the State Comptroller shall provide written notification of any approved request or, in the event approval cannot be accommodated, the reasons why.

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**Exemption Timeframe** All exemptions or modifications to the indirect cost requirements approved by DOA will be granted only for a one-year timeframe, since an agency’s/institution’s situation could change significantly from year to year. Agencies/institutions will be required to submit written requests annually as needed. This will allow for DOA to properly review compliance with the provisions of indirect cost recovery as outlined in the *Appropriation Act*.

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## SPECIFIC INSTRUCTIONS: INSTITUTIONS OF HIGHER EDUCATION ONLY

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### Waiver

The requirement to apply a negotiated indirect cost rate to a specific grant or contract may be waived or the rate limited by the President of the institution or his designee if the grant or contract is judged to be of exceptional academic merit. Or, the inclusion of indirect cost recoveries would result in the potential grantee's proposal not being cost competitive. All exemptions or rate reductions should be reviewed and approved annually by the President of the institution or his designee.

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## Internal Control

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### Internal Control

Agencies and institutions that accept grants and contracts should implement internal control procedures to ensure the following:

- Unallowable costs have not been charged to federal awards either directly or indirectly.
- The agency organizational structure has been reviewed to determine the appropriate proposal methodology.
- An indirect cost rate proposal or cost allocation plan has been prepared according to requirements set forth in 2CFR, Part 200, *the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.
- The completed indirect cost rate proposal or cost allocation plan has been submitted, negotiated, and approved by the cognizant agency in a timely manner.
- The approved indirect cost rate or amount has been applied against grant awards.

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## Internal Control, Continued

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- The indirect cost recoveries and transfer entries have been recorded in Cardinal correctly and in a timely manner.
  - The work papers to support the development and application of indirect cost proposals and/or cost allocation plans and the recovery of indirect costs have been retained.
  - Documentation is maintained concerning the restriction or prohibition of indirect cost recovery from grants and contracts.
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## Records Retention

### Records Retention

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- Maintain indirect cost rate proposals or cost allocation plans, financial records, and support for three years beginning at the close of the fiscal year covered by the rate/plan.
  - If undergoing audits, claims or litigation, retain documentation until completion.
  - Destruction of records should occur in accordance with policies and procedures from the Library of VA.
  - References for recordkeeping requirements can be found in *the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.
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## DOA Contact

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**DOA Contact**      Indirect Cost Coordinator  
 Financial Reporting  
 (804) 225-3804  
 [penny.williams@doa.virginia.gov](mailto:penny.williams@doa.virginia.gov)

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## Subject Cross References

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**Subject Cross  
 References**      CAPP – Cardinal Topic No. 20205, *Deposits*  
 CAPP – Cardinal Topic No. 21005, *Records and Retention*  
*Appropriation Act* Section 4-2.03

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## Indirect Cost Recovery From Nongeneral, Nonfederal Funded Agencies

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### Policy

**Policy** The policies set forth below on indirect cost recovery apply to all state agencies and institutions (**except institutions of higher education**) funded in whole or in part by nongeneral, nonfederal funds, including user fees charged to the general public, but not to other state agencies.

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### Responsibility

**Introduction** Responsibility and/or functions performed by

- Department of Accounts (DOA),
- Department of Planning and Budget (DPB),
- Central Service Agencies, and
- Agencies and Institutions (except Higher Education)

are as follows:

**DOA** In support of indirect cost recovery, DOA will perform the following functions:

1. Maintain a technical understanding of full-costing methods.
2. Prepare the full costing indirect cost allocation plan (SICAP).
3. Send copies of the Full Costing Assessment Schedule to the appropriate personnel at DPB in a timely manner.

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## Responsibility, Continued

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4. Distribute copies of the proposed assessments to agencies after DPB reviews and makes adjustments.
  5. Provide agencies, upon request, an explanation of the methodology used in developing the full-costing SICAP.
  6. Transfer to the General fund of the State Treasury, prior to fiscal year end, the assessed indirect cost recovery amounts included in the Appropriation Act Section Three, that represent the General fund support provided to an agency's nongeneral, nonfederal fund.
  7. Provide assistance, upon written request, to an agency or institution in developing operating budgets and user fees, when applicable, that accurately reflect the full cost of delivering a prescribed service or product.
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### DPB

In support of indirect cost recovery, DPB will perform the following functions:

1. Review the Full Costing Assessment Schedule prepared by DOA, taking into consideration operational, budgetary, or other extenuating circumstances that could affect an agency's ability to pay these indirect costs.
  2. Notify DOA, in writing, in a timely manner of any and all exemptions and adjustments to the Assessment Schedule, so that DOA can distribute the Final Assessment Schedule to the affected agencies within established timeframes.
  3. Determine the final assessment to be included in the *Appropriation Act*.
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## Responsibility, Continued

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### Central Service Agencies

All central service agencies, or other agencies submitting data for inclusion in the full costing indirect cost allocation plan, will perform the following functions:

1. Provide required data to DOA in a timely manner, accompanied by the standard SICAP certification form signed by the agency head or his or her designee, attesting to the integrity of the data.
2. Maintain work papers supporting data provided to DOA, for a period of three years, commencing with the submission of data to DOA.
3. Make available all related work papers, upon request, to DOA and Auditor of Public Accounts.

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### Agencies & Institutions

Agencies and institutions, **except institutions of higher education**, must do the following:

1. Develop operating budgets and budget requests based on full costs. Full costs must include direct costs, agency indirect costs, and statewide indirect costs. The statewide indirect costs to be used must be from the most recent full-costing SICAP available at the time of the development of the budget.
  2. When applicable, maintain complete working papers supporting the development of user fees based on full-costing methods.
  3. Reimburse the General Fund, as directed in Section 3-1.01 of the *Appropriation Act*, for central service agency General Fund support associated with nongeneral, nonfederal fund activity.
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## Procedures

### Full Costing Indirect Cost Allocation Plan

DOA will prepare a full-costing Statewide Indirect Cost Allocation Plan (SICAP) that reflects all costs incurred by the General Fund on behalf of state agencies and institutions as recorded in Cardinal.

The full costing plan differs from the federal SICAP by its inclusion of certain General fund expenditures that are unallowable in the federal plan. Such items include but are not limited to General fund expenditures for Legislative Services, Executive Services, Taxation, and Banking Services.

The full costing SICAP will provide the base amount of statewide indirect costs associated with the nongeneral, nonfederal activity of an agency for the most recently completed fiscal year.

### Assessment Schedule

The costs allocated in the SICAP computation are transferred to the Assessment Schedule. The Assessment Schedule computes the “Potential General Fund Support” that is provided to an agency’s nongeneral, nonfederal funds. The Potential General Fund Support is a fair representation of the General Fund Support received by a particular nongeneral, nonfederal fund within an agency. This potential support does not take into consideration operational, budgetary, or other extenuating circumstances that could affect the agency’s ability to pay these indirect costs.

The process to determine the Potential General Fund Support is outlined below:

Stage	Description
1	The <b>Costing Allocations total</b> allocated from the SICAP is <u>multiplied</u> by the <b>percent of non-general expenditures</b> to total expenditures for each agency/fund. The result is the <b>Prorated General Fund Support</b> .
2	The Prorated General Fund Support amounts are adjusted for any interest income received in the General fund for the particular nongeneral fund cash balances maintained by the agencies during the year.
3	The Prorated General Fund Support is adjusted by DPB for any unusual or extraordinary items or exemptions.

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## Procedures, Continued

### Exemptions and Adjustments

DPB is responsible for granting all exemptions and adjustments to the Potential General Fund Support on the Assessment Schedule. DOA will make adjustments to the SICAP allocation methodology only if a material error is found. No exemptions or adjustments are granted by DOA.

#### Agency Request for Adjustment

Agencies that believe extenuating circumstances exist and are not reflected in their allocation of statewide indirect costs should contact the assigned DPB analyst. DPB will then evaluate the concern and determine the adjustment, if any, which should be made to the assessment. For example, reimbursement of special revenue fund expenditures by federal funds (e.g., Medicaid payments to mental health facilities) is an extenuating circumstance that may require an adjustment to the statewide indirect cost allocation amounts.

#### Department of Planning and Budget Evaluation

Prior to development of the Executive Budget proposal and the recommendations for cost recovery transfers detailed in Section 3-1.01 of the *Appropriation Act*, DPB evaluates the impact that transferring statewide indirect cost recoveries to the General fund would have on each affected agency. DPB may determine that the expenditure of program dollars to reimburse the General fund for statewide indirect costs will have a detrimental programmatic affect on an agency. If so, that agency will not be required to reimburse the General fund for statewide indirect costs and the amount recovered will not be shown as a transfer in the *Appropriation Act*.

### Transfers

Agencies that are able to recover statewide indirect costs will remit into the General fund the assessed amount of statewide indirect cost through a cash transfer. The State Comptroller each year as required will effect this by the *Appropriation Act*, Section 3-1.00, "Transfers."

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## Records Retention

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**Records Retention**

Documentation supporting the agency's recovery of statewide indirect costs associated with nongeneral, nonfederal funds, or the prohibition thereof, must be maintained at the agency for a period of at least three years, or until the completion of a review by the Auditor of Public Accounts, whichever is longer. If undergoing audits, claims or litigation, retain documentation until completion.

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## DOA Contact

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**DOA Contact**

Indirect Cost Coordinator  
 Financial Reporting  
 (804) 225-3804  
 [penny.williams@doa.virginia.gov](mailto:penny.williams@doa.virginia.gov)

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*Appropriation Act* Section 3-1.01 and 4-2.03

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