

## DEPARTMENT OF BENEFIT PAYMENTS

744 P Street, Sacramento 95814



August 5, 1976

ALL-COUNTY LETTER NO. 76-108

TO: ALL COUNTY DISTRICT ATTORNEYS  
ALL COUNTY AUDITORS/CONTROLLERS  
ALL COUNTY WELFARE DIRECTORS

SUBJECT: INDIRECT COST RATE PROPOSALS FOR THE IV-D CHILD SUPPORT PROGRAM

REFERENCE:

This letter is to clarify and expand upon previous instructions issued to the counties on Indirect Cost Rate Proposals (ICRPs) applicable to the IV-D Child Support Program. The information contained herein is based on recent meetings and discussions with Department of Health, Education, and Welfare officials.

As part of the Department of Benefit Payments' (DBPs') overall responsibility in the IV-D Program, DBP will review all District Attorneys' (DAs') indirect cost rates (ICRs) to the extent necessary to establish that rates are prepared in accordance with procedures contained in Federal Management Circular 74-4 (formerly Circular A-87). The county DAs are required to develop and use an ICRP in computing and claiming IV-D indirect costs. The guidelines contained herein must be adhered to in developing and submitting the ICRP for IV-D.

ICRP Overview

An ICRP is a device for determining what portion of general overhead expenses each division within the DA's office should bear. There are two basic methods for developing an ICRP to be used in computing indirect costs. One is termed the "single rate" method while the other is called the "multiple rate" method.

The "single rate" method involves the establishment of one ICR for the entire DA's office. This rate may be used by the Family Support Division (FSD) to determine indirect costs. The "multiple rate" method involves the establishment of an individual ICR for each division of the DA's office. Prior to discussing each method in depth, it is necessary to define the elements of an ICRP.

## Elements of an ICRP

### 1. Indirect Costs

These are costs that cannot be identified directly to the FSD but jointly benefit the FSD and one or more other DA divisions. The two basic types of indirect costs to be considered are:

#### a. Internal Indirect Costs

These are costs occurring within the DA's office for services that benefit the FSD and other divisions. Supportive administrative staff, utilities, and supplies are examples of internal indirect costs.

#### b. Indirect Costs from the Countywide Cost Allocation Plan (COWCAP) Based on FMC 74-4 ("A-87")

These are costs of central government support services furnished to the local IV-D Agency and allocated through the COWCAP.

### 2. Direct Costs

These are costs that can be identified specifically to a particular program, such as the Child Support Program or to a specific unit such as FSD. Typical direct costs chargeable to the Child Support Program are:

- a. Compensation of employees for the time and effort devoted specifically to the execution of the Child Support Program.
- b. Cost of material acquired, consumed, or expended exclusively for child support.
- c. Equipment used by FSD only.
- d. Training and travel costs for the benefit of the Child Support Program.

### 3. Unallowable Costs

These are costs that are unallowable per FMC 74-4 guidelines (also see IV-D Claiming Instruction Handbook Section 25-940, Page 18). Examples of unallowable costs are:

- a. Costs of general county government.
- b. Capital expenditures.

NOTE: Depreciation or use allowance on capital expenditures are allowable and may be included in the ICRP.

## Methods for Computing ICRPs

### Single Rate Method

This method is one whereby a single ICR is developed for the entire DA's office. Once established, this rate is used by the FSD in computing its quarterly indirect costs. The basic prerequisite for using the Single Rate Method is that all DA divisions must benefit to relatively the same degree from those activities representing indirect costs. The following steps are involved in developing a single rate ICRP.

1. Determine which DA costs can be directly identified to each of the DA divisions (direct costs), and which costs jointly benefit FSD and other DA divisions but cannot be directly identified to these divisions (internal indirect costs).

NOTE: If the DA wants to include administrative services (e.g., DA's salary and benefits) as an indirect cost benefiting the FSD, the following criteria apply.

- a. If the salaries and benefits of the DA and/or his administrative staff are already being claimed as direct costs, no portion of these salaries and benefits may be claimed as indirect costs.
  - b. The DA and/or his administrative staff must separate his/their time spent in general administration from time spent in other activities (e.g., criminal casework). Acceptable documentation of this would be a certification by the DA that he and/or his administrative staff spend an approximate percentage of his/their time in general administration. (Please state the approximate percentages for each administrative staff member involved including the DA.) The certification should also state that the FSD derives benefit from that general administration. If the FSD does not derive benefit from it, do not include administrative services as an indirect cost in the ICRP.
  - c. Only that portion of the DA's and/or his administrative staff's salaries and benefits representing actual time spent in administration can be considered administrative indirect costs. (Again, FSD must derive benefit from it.)
2. Obtain the Countywide Cost Allocation Plan (COWCAP). This contains the FMC 74-4 Exhibit of Costs. If a separate line item is provided for the FSD in the COWCAP, this cost should not be included in the ICRP. (Please refer to the "Claiming Instructions" section for additional information on this item.) If there is not a separate line item in the COWCAP for the FSD but there is an allocation to total DA, these costs will be added to the internal indirect costs identified above.

3. Once all direct and indirect costs have been identified and separated, eliminate all unallowable costs as defined in FMC 74-4, this letter, and our IV-D Claiming Instruction Handbook.
4. Divide the total allowable indirect costs by a direct cost base that includes some or all of the allowable direct costs that have been identified. Bases in common use include but are not limited to:
  - a. Total direct salaries and wages;
  - b. Total direct salaries and wages plus applicable fringe benefits;
  - c. Total allowable direct costs excluding any purchase of services from other public or private agencies that would be claimed in Groups III, IV, or V on the Form CA 356.

The resulting ratio is a single DA ICR that may be used by FSD in computing indirect costs.

5. To obtain the FSD's quarterly indirect costs, apply this ICR to the FSD's quarterly direct costs in a consistent manner. That is, apply this rate to the same type of direct costs that were included in the direct cost base of the ICRP. If the base consists only of salaries and benefits, then apply the ICR to the quarterly, direct charged, salaries and benefits of the FSD.

Please see Attachments 1 and 2 of this letter for a sample format of the Single Rate Method.

#### Multiple Rate Method

This method is one whereby a separate ICR is developed for each DA division. When the divisions of the DA's office do not benefit to relatively the same degree from the functions which generate indirect costs, the county must use this method. The following steps are involved in developing an ICRP using the Multiple Rate Method.

1. Determine which DA costs can be directly identified to each of the DA divisions (direct costs) and which costs jointly benefit FSD and other DA division but cannot be directly identified to these divisions (internal indirect costs). (See the note concerning administrative services in the "Single Rate Method" section of this letter for additional relevant information.)
2. Segregate all unallowable costs as defined in FMC 74-4, this letter, and our IV-D Claiming Instruction Handbook.
3. Classify all allowable internal indirect costs into pools (functional cost groupings).

4. Obtain the Countywide Cost Allocation Plan (COWCAP) which contains the FMC 74-4 Exhibit of Costs (external indirect costs). If there is a separate line item for FSD, do not include these costs in the ICRP. (See "Claiming Instructions" section of this letter for additional information.) If there is not a separate line item in the COWCAP for FSD, the DA's FMC 74-4 costs will be allocated via the ICRP to each DA division along with the internal indirect costs.
5. Select an appropriate distribution base for each indirect cost pool. See Attachment No. 3, Allocation Base Column, for examples of distribution bases. The bases used to allocate the FMC 74-4 costs in the ICRP should be the same as those used to allocate them in the COWCAP.
6. Distribute each indirect cost pool to the benefiting DA divisions via the allocation bases.
7. Total the indirect costs allocated to each division.
8. Calculate the ICR for each division by dividing each division's indirect costs by that division's direct cost base. (See "Single Rate Method" section of this letter for examples of direct cost bases.)
9. To obtain the FSD's quarterly indirect costs, apply the FSD's ICR to the FSD's quarterly direct costs in a consistent manner as indicated in the "Single Rate Method" section of this letter.

Please see attachments 3 and 4 of this letter for a sample format of the Multiple Rate Method.

#### Claiming Instructions

##### 1. FMC 74-4 Costs

If a separate line item is provided for the FSD in the COWCAP, this cost should be excluded from the ICRP. FMC 74-4 costs may then be claimed by dividing the annual FSD costs as they appear on the COWCAP by four and inserting the resulting quarterly amount on the "FMC 74-4" (County A-87) line of claim form CA 356. If a separate line item is not provided for the FSD in the COWCAP, do not use the FMC 74-4 line of the claim form. Please refer back to the "Methods for Computing ICRPs" section of this letter for proper allocation of the DA's FMC 74-4 costs.

All direct program costs should be direct billed and not included in the FMC 74-4 Exhibit of Costs. An example of this would be EDP costs that can be identified specifically to the IV-D program. This becomes particularly significant when DBP has not granted approval of these costs, thereby precluding reimbursement. Any inclusion of direct EDP costs on the FMC 74-4 Exhibit of Costs would be incorrect for IV-D claiming purposes.

## 2. Indirect Costs

Once computed, the quarterly Indirect Cost amount should be inserted on the "Indirect Cost" line (Group II, C) of the CA 356 claim form.

## 3. Duplication of Costs

Once a particular cost has been classified as Unallowable, Direct, Internal Indirect, or FMC 74-4 (External Indirect through the COWCAP), it must be treated as such throughout the effective duration of the ICRP. It is essential that no duplication of costs occurs. For example, if a cost item is included in the direct cost base of your ICRP or if that cost item is claimed direct on Form CA 356, under no circumstances may the same cost item be claimed as an indirect cost, whether internal or FMC 74-4. Conversely, if a cost item is part of the FMC 74-4 costs allocated to the local IV-D agency or part of the internal indirect costs, the same cost item must not be a direct cost in your ICRP nor can it be claimed as a direct cost against Title IV-D.

### Submitting ICRFs -- Provisional and Final

Prior to claiming any IV-D indirect costs for fiscal year 1976/77, each county must submit a provisional ICRP for the local IV-D agency based on the FY 76/77 budget or on actual FY 74/75 costs. After the provisional FY 76/77 ICRP is completed, a final ICRP for FY 75/76 based on actual direct and indirect costs for FY 75/76 must be prepared. This final ICRP will be used to determine the actual amount of indirect costs incurred during FY 75/76. Indirect costs previously claimed during FY 75/76 will be adjusted against actual FY 75/76 indirect costs. DBP's Claims Audit and Control Bureau will make the necessary adjustments to credit the county if there was underclaiming or debit it in the case of overclaiming. The final 75/76 ICRP based on actual figures will constitute the county's provisional ICRP for FY 77/78. The deadline for submittal of the FY 75/76 ICRP is March 31, 1977. From that date on, counties will normally submit only one ICRP each year. Indirect costs claimed during FY 76/77 based on the provisional ICRP will be adjusted against actual indirect costs incurred as determined by the final ICRP for FY 76/77. This final ICRP for FY 76/77 is in turn used as a provisional ICRP to claim indirect costs for FY 78/79. The process is illustrated by the following schedule.

### ICRPs TO BE SUBMITTED TO AND APPROVED BY DEP

<u>Type</u>	<u>Fiscal Year</u>	<u>Deadline</u>	<u>Based On</u>	<u>Purpose(s)</u>
Provisional	76/77	10/1/76 or prior to claiming FY 76/77 indirect costs.	1. FY 75/77 budgeted figures or FY 74/75 actuals.  2. FY 76/77 FMC 74-4 costs when applicable.	Claiming indirect costs for FY 76/77.

<u>Type</u>	<u>Fiscal Year</u>	<u>Deadline</u>	<u>Based On</u>	<u>Purpose(s)</u>
Final	75/76	3/31/77	1. Actual indirect and direct costs for FY 75/76. 2. FY 75/76 FMC 74-4 where applicable.	1. Adjustment of indirect costs claimed in FY 75/76 on provisional rates. 2. Serve as a "Provisional" ICRP to claim indirect costs for FY 77/78.
Final	76/77	3/31/78	1. Actual indirect and direct costs for FY 76/77. 2. FY 76/77 FMC 74-4 costs when applicable.	1. Adjustment of indirect costs claimed in FY 76/77 based on 74/75 actuals or 76/77 budgeted. 2. Serve as "Provisional" ICRP to claim indirect costs for FY 78/79.
Final	77/78	3/31/79	1. Actual indirect and direct costs for FY 77/78. 2. FY 77/78 FMC 74-4 costs when applicable.	1. Adjustment of indirect costs claimed in FY 77/78 based on 75/76 actuals. 2. Serve as "Provisional" ICRP to claim indirect costs for FY 79/80.

If counties wish to use budgeted figures for their provisional ICRP in lieu of the previous final ICRP, this is acceptable. However, this method requires preparation of two ICRPs each year - one provisional based on budgeted costs and one final based on actual costs.

Please submit two typewritten copies of your ICRPs along with required documentation to:

State Department of Benefit Payments  
744 "P" Street  
Mail Station 13-77  
Sacramento, CA 95814

Attention: Financial Planning Bureau, IV-D Unit

#### Required Documentation

Each ICRP must be supported by the following documentation:


1. A certification by the responsible county official that the proposal has been prepared in accordance with FMC 74-4 principles and this letter. (See Attachment No. 5 for a sample format.)
2. If your ICRP is based on the most recent actual expenditures, copies of the supporting financial statements are required. If your ICRP is based on budgeted figures, a copy of the relevant budget material is required. Additional documentation includes but is not limited to the following: the FMC 74-4, Exhibit of Costs and Related Schedules, Building Depreciation or Use Allowance Schedule (if applicable), Equipment Depreciation or Use Allowance Schedule (if applicable).
3. Organization charts of the DA's office and the FSD which show all divisions and personnel included in and excluded from the proposal.
4. Administrative time certification as explained in the "Single Rate Method" section of this letter.

#### ICRP Approval

Each ICRP submitted by the county will be reviewed by DBP. If the ICRP is in conformance with FMC 74-4 principles and guidelines presented in this letter, written approval will be given subject to federal and/or state audit. Prior to this date reviews were made on a cursory basis only and no formal written approvals were issued. Express written approval of provisional ICRPs will be needed prior to claiming indirect costs for the applicable fiscal year. Similarly, a final ICRP must be submitted by the county and approved by DBP in order to adjust indirect costs claimed against those actually incurred. Approval of a final ICRP extends to its use as a provisional ICRP for the applicable fiscal year (see the above schedule).

If you have any questions concerning the indirect cost rate proposal, please contact Phil Noble, Al Granda, or Norm Moe at 916/445-7046.

Sincerely,

A handwritten signature in cursive script, appearing to read "G. Adams", written in black ink.

GARY G. ADAMS  
Deputy Director

Attachment

cc: CWDA