

Overview of LEA Indirect Cost Rate assignment by the ADE

By

Sarah (Jeongwha) Lors , Director, Grants Management unit

Overview

The Arizona Department of Education (ADE) acts as a pass-through agency to provide state and federal grant funding to Local Educational Agencies (LEAs) and other entities. A portion of a LEA's grant/project funding can be applied toward indirect costs incurred by the LEA (on federal projects only) during the project period.

What are indirect costs?

Indirect costs are those costs not readily attributable to a specific grant program without effort disproportionate to the results achieved. The idea here is that there are shared costs between one or more grant programs, therefore the costs can't be charged to only one grant/project. These are also typically termed "overhead" costs.

Examples of applying indirect cost:

- A teacher whose time is divided between school/grant programs and whose time can't be easily calculated as attributable to one program can be paid through indirect cost.
- The costs of paying for a facility/location and the resultant utilities at which more than one grant/project is administered can be paid through indirect cost.

How does an LEA obtain an Indirect Cost Rate?

The ability to apply Indirect Costs against a grant/project is not automatic. A new rate must be calculated yearly for most entities¹.

- Districts and established charter schools wishing to obtain a yearly rate from the ADE must check the appropriate box on the Annual Financial Report (AFR) and supply the required additional information (see sections below)².
- All other entities must send a copy of their approved Cost Allocation Plan (provided by their cognizant agency, which is usually the agency that supplies the greatest amount of federal funding to the entity) to the ADE Audit unit.

Gathering the data

The AFR and additional data must be sent to the ADE School Finance unit by October 15th of every year. School Finance has the responsibility to compile and report all district and charter school AFR data by January 15th in order to publish the Superintendent's report³. Audit unit subsequently uses specific data from the AFR to calculate the yearly rate for each district and charter school that requested a rate and submitted the additional data⁴.

How are rates calculated?

¹ 34 CFR 76.560 (b).

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³ A.R.S. 15-255.

⁴ Additionally, the US Department of Education must approve the ADE's Cost Allocation Plan every three years (43CFR 75.561(c)).

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If a grant has a statutory requirement prohibiting the use of Federal funds to supplant non-federal funds, the allowable rate is restricted to no greater than 8.0%⁵. Therefore, Audit Resolution calculates two rates: 1) a restricted and 2) a nonrestricted rate.

Using OMB Circular A-87 principles, the Audit unit uses AFR data for the district or charter school's prior year direct and indirect costs to obtain the rate. The combined *indirect* cost line items are termed the Indirect Cost Pool. Examples of line items include data processing, telecommunications, audit services, etc. (i.e., administrative expenses⁶ or "overhead"). The combined *direct* cost line items are termed the Direct Cost Pool. Together the two pools comprise what is termed the Base.

A Base is formulated for both the restricted and nonrestricted rate. The Indirect Cost Pool is then divided by the Base to yield a yearly rate. Certain line items are included when calculating the nonrestricted rate that are not included in the calculation of the restricted rate. If the resultant restricted rate should exceed 8.0%, the rate is given at 8.0% for that year.

How is the rate applied to a grant/project?

The Audit unit provides a list of LEA/entity rates to the Grants Management unit for entry into the automated system. When the LEA/entity applies for a federal grant online, indirect cost can be applied towards the project. In the online *application* process, the maximum allowable is calculated as the rate times the subtotal of anticipated expenditures. In the online *completion report* process (a report of final expenditures), the maximum allowable is calculated as the rate times the subtotal of actual expenditures. (Some grants have more stringent limits.)

⁵ 34CFR 76.563 and 76.564 (c)(2).

⁶ 34 CFR 76.564.