



INDIRECT COST ALLOCATION PLAN / INDIRECT COST RATE PROPOSAL SUBMISSION PROCESSES AND DOCUMENTATION OF PROPOSAL

SECTION 1 ICAP/ICRP ANNUAL SUBMISSION PROCESSES

Due to new 2 CFR Part 200 regulations, the California Department of Transportation (Caltrans) and the Independent Office of Audits and Investigations (IOAI) has revised its processes to provide Local Government Agencies (LGAs) different options for the submittal of an Indirect Cost Allocation Plan/Indirect Cost Rate Proposal (ICAP/ICRP). These options include:

- Submit ICAP/ICRP certification only (See Subsection A for revised streamlined process).
- Submit complete ICAP/ICRP package (See Subsection B for complete ICAP/ICRP package submission process).
- Submit ICAP/ICRP extension request of a current negotiated indirect cost rate(s) (See Subsection C for ICAP/ICRP extension request process).
- Submit a notification for the use of a de minimis rate (See Subsection D for de minimis rate).
- Submit an ICAP/ICRP for the other federal cognizant approval (See Subsection E for other federal cognizant approval).

The options and submission processes described below will help a LGA determine what option(s) to be utilized.

SUBSECTION A. REVISED STREAMLINE PROCESS

LGA may submit the ICAP/ICRP certification and Streamlined Submission Checklist to IOAI for review and acceptance, if the LGA did not meet any of the following conditions:

- The LGA receives more than \$35 million in direct federal funding.
- The LGA is designated as a high risk recipient by Caltrans.
- The LGA has changed its ICAP/ICRP calculation methodology.
- The LGA's most recent ICAP/ICRP required an indirect cost rate(s) change due to an improper inaccurate, or unsupported rate calculation.
- The LGA has a major change to its financial management system (i.e. change in processes, or in accounting software).
- This is the first ICAP/ICRP submission by the LGA.

The ICAP/ICRP certification must be submitted within six months after the close of the LGAs fiscal year or within 30 days from the date the LGAs annual financial statement audit is complete.

Within 10 business days of receipt IOAI will review the ICAP/ICRP certification and checklist to determine whether the LGA qualifies for the streamlined process.

- If the LGA qualifies for the streamlined process, IOAI will sign and return the ICAP/ICRP certification with an acceptance letter.
- If the LGA does not qualify for the streamlined process IOAI will notify the LGA that the LGA must follow the complete ICAP/ICRP submission process in Subsection B.

The LGA must receive an Acceptance Letter from IOAI prior to billing for indirect costs. Although not required to be submitted to IOAI under the streamlined process all LGAs desiring to claim indirect costs for federal-aid and/or state funded projects must annually prepare and maintain an ICAP/ICRP and related by documentation to support those costs. All documents related to the ICAP/ICRP must be retained for audit in accordance with the record retention requirements in 2 CFR Part 200.333 and Agreements between the LGA and Caltrans.

SUBSECTION B. COMPLETE ICAP/ICRP PACKAGE SUBMISSION PROCESS

A complete ICAP/ICRP submission package (Section 2, Subsection B) should be submitted to IOAI when the LGA's ICAP/ICRP has not been approved by a federal cognizant agency and meets one of the following conditions:

- The LGA receives more than \$35 million in direct federal funding.
- The LGA is designated as a high risk recipient by Caltrans.
- The LGA has changed its ICAP/ICRP calculation methodology.
- The LGA has a major change to its financial management system (i.e. change in processes, or in accounting software).
- This is the first ICAP/ICRP submission by the LGA.
- The LGA's most recent ICAP/ICRP required an indirect cost rate(s) change due to an improper inaccurate, or unsupported rate calculation.

When the LGA does not qualify for the revised streamlined process the LGA will submit a complete ICAP/ICRP proposal to IOAI for review and acceptance prior to invoicing for indirect costs. If allocated central service costs are included in an ICRP, the LGA should also submit its Central Service Cost Allocation Plan along with the ICRP to IOAI.

Within 30 business days of receipt, IOAI will review the ICAP/ICRP for compliance to the submission requirements of 2 CFR, Part 200, Subpart E, Appendix 5 and 8. Caltrans acceptance must be received by the LGA prior to the LGA billing for indirect costs.

If necessary, IOAI will advise LGAs of the additional documentation needed to support/ evaluate the proposed plan or changes required to make the proposed plan compliant. Non-compliant submissions may be returned to the LGA if requested documentation is not provided or required changes are not made within 5 business days of notification to the LGA.

SUBSECTION C. ICAP/ICRP EXTENSION REQUEST PROCESS

LGAs that wish to apply for an extension of a current negotiated indirect cost rate(s) for a period of up to four years may do so unless the LGA meets one of the following conditions.

- The LGA is designated as a high risk recipient by Caltrans.
- The LGA has changed its ICAP/ICRP calculation methodology.
- The LGA has a major change to its financial management system (i.e. change in processes, or in accounting software).
- This is the first ICAP/ICRP submission by the LGA.

LGAs should provide the following information that will be used in evaluating their extension request:

- Any outstanding audit finding(s) that would impact the LGA's indirect cost rate(s).
- An ICAP/ICRP certification indicating its request to apply for the extension and then period of extension.
- ICAP/ICRP that is based on actual costs for a final rate(s), or previous year' actual costs for a predetermined rate(s) (ICAP/ICRPs based on budgeted costs will not be accepted for extension).
- A completed Extension Checklist.

LGAs with a fixed rate(s) with a carry-forward agreement(s) for previous year(s) that are requesting extension of a proposed final or predetermined rate(s), must resolve the carry-forward for the last approved rate fixed year(s).

Within 45 business days of receipt IOAI will review the extension request and then Extension Checklist to determine whether the LGA meets the conditions listed above and notify the LGA if the extension request is approved.

- If the LGA meets the extension conditions, IOAI will sign and return the ICAP/ICRP certification with an Acceptance Letter.
- If the LGA does not meet the conditions, IOAI will notify the LGA that the LGA must continue to follow the ICAP/ICRP submission process annually.

SUBSECTION D. DE MINIMIS RATE

LGAs that have never received a negotiated indirect cost rate and receive less than \$35 million in direct federal funding may elect to charge a de minimis rate of 10% of modified total direct costs. LGAs electing to use the de minimis rate must complete and submit to the IOAI the "10% De Minimis Indirect Cost Rate Certification" found at the website <https://ig.dot.ca.gov/resources>. A de minimis rate may be used indefinitely. Costs must be consistently charged as either indirect or direct but may not be double charged or inconsistently charged as both. IOAI will notify the LGA if it does not qualify for the use of the de minimis rate. IOAI may perform Incurred Cost Audits or Financial Management System Audits of LGAs using de minimis(s) found to be inconsistently charging costs or not in compliance with 2 CFR Part 200 will be required to reimburse Caltrans for any identified overbillings.

Modified total direct cost means all direct salaries and wages, applicable fringe benefits, materials, and supplies, services, travel and up to the first \$25,000 of each subaward (regardless of the period of performance of the subawards under the award). Modified total direct costs excludes equipment, capital expenditures, rental costs, and the portion of each subaward in excess of \$25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.

SUBSECTION E. OTHER FEDERAL COGNIZANT APPROVAL

LGAs with an ICAP/ICRP approved by a cognizant federal agency other than the FHWA will submit a copy of the cognizant federal agency's approval to IOAI.

SUBSECTION F. FRINGE BENEFIT RATE

If the LGA's overall fringe benefit rate is not approved for the LGA as part of its Central Service Cost Allocation Plan (i.e. citywide cost plan or countywide cost allocation plan), a proposed fringe benefit rate should be included as a separate rate in ICAP/ICRP certification submittal. However, LGAs that charge actual fringe benefit costs per individual employees are not required to establish a fringe benefit rate.

SUBSECTION G. OTHER INFORMATION

On a monthly basis, IOAI will post a listing of all LGAs utilizing a de minimis rate and non-FHWA cognizant approval rates on Caltrans Intranet website. Unless the LGA receives an extension for a fiscal year, LGAs will submit their ICAP/ICRP within six months after the close of the fiscal year or within 30 days from the date the LGA's annual financial statement audit is complete. LGAs that submit an ICAP/ICRP after this time frame may be at risk of not being eligible for indirect cost billing and reimbursement.

SECTION 2 DOCUMENTATION OF PROPOSAL

SUBSECTION A. DOCUMENTATION FOR A COMPLETE ICAP/ICRP PACKAGE

A complete ICAP/ICRP Submission Package should include the following as prescribed by 2 CFR Part 200, Subpart E - Cost Principles, and Appendices 5 and 7:

- a. A schedule showing calculation of rates proposed including subsidiary worksheets and other relevant data, cross-referenced and reconciled to the financial data noted below.
- b. Subsidiary worksheets that include the following:
 - Schedule of actual direct / indirect / unallowable costs incurred by cost category type (i.e., rent, utilities, etc.) as well as by departmental unit, or
 - Schedule of budgeted direct costs and indirect costs by cost category type and department unit supported by Board approved budget or prior year's actual costs.
 - Schedule showing calculation of the over/under carry-forward amount when "fixed-rate" is used.
- c. A copy of financial data (audited financial statements, comprehensive annual financial report, single audit reports and management reports, if applicable, etc.) on which rate(s) is based.
- d. The approximate amount of the direct base costs incurred under federal-aid and state reimbursement. These costs should be broken out between salaries and wages and other direct costs.
- e. A chart identifying the organizational structure of the LGA during the period for which the proposal applies along with a functional statement noting the duties and/or responsibilities of all LGA units. (After initial submittal, only revisions need be included with subsequent proposals.)
- f. Certification that the ICAP/ICRP was prepared in a manner consistent with and in compliance with the Cost Principles of 2 CFR Part 200, Subpart E and Appendices 5 and 7.
- g. IOAI's Submission Review Checklist to assist LGA's in understanding the documentation that is used to review submittals.

SUBSECTION B. CENTRAL SERVICE COST ALLOCATION PLAN

Central Service Cost Allocation Plans - If allocated central service costs are include in an ICRP, the LGA should submit its Central Service Cost Allocation Plans, along with the ICAP/ICRP.

All Central Service Cost Allocation Plan should include supporting documentation in accordance with 2 CFR Part 200, Appendix 5, Section E. See ASMB C-10 (Assistant Secretary Management and Budget Cost Principles and Agreements with the Federal Government), issued by the Department of Health and Human Services for a Sample Central Service Allocation Plan and supporting documentation.

SUBSECTION C. RETENTION / AUDIT

All documents related to the ICAP/ICRP must be retained for audit in accordance with the record retention requirement in 2 CFR Part 200.333, and Agreements between the LGA and Caltrans.

Annually, IOAI will perform a risk assessment of accepted ICAPs/ICRPs for audit. IF an ICAP/ICRP is selected for audit, the LGA will be notified. IOAI will perform an audit to determine whether the ICAP/ICRP exists and complies with the applicable cost principles. Material audit adjustments will require reimbursement if proposals are found to have included costs that are unallowable as specified by law or regulation or by the terms and conditions of federal or state awards. These adjustments or refunds will be made regardless of the type of rate negotiated (predetermined, final, fixed, or provisional). For rates covering a future fiscal year (i.e. extended rates), the unallowable costs will be removed from the indirect cost pool(s) and rate(s) appropriately adjusted for all fiscal years covered by the extension. FHWA may also conduct reviews/audits.