Federal Highway Administration
Office of the Chief Financial Officer

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# FHWA COST ALLOCATION AND INDIRECT COST RATE REVIEW GUIDE

## FOR STATE AND LOCAL GOVERNMENTS INDIRECT COST ALLOCATION PLANS; NARRATIVE COST ALLOCATION PLANS; AND STATE/LOCAL WIDE CENTRAL SERVICE COST ALLOCATION PLANS;

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**REVIEW GUIDE FOR STATE AND LOCAL GOVERNMENTS**

**INDIRECT COST RATE PLANS, NARRATIVE COST ALLOCATION PLANS, AND CENTRAL SERVICE COST ALLOCATION PLANS,**

# INTRODUCTION

The purpose of this review guide is to assist FHWA Division Offices in reviewing indirect cost rates for State, local and Indian tribal governments, narrative cost allocation plans, and central services cost allocation plans. The guide includes information on planning and conducting reviews of proposed cost allocation plans and indirect cost rates. The guide will cover in detail the various approaches and allocation methods. Although this guide is detailed and comprehensive, it is not a substitute for professional experience. The FHWA staff should consider the complexity of the proposal, the level of Federal reimbursement, and prior experience with the governmental unit when preparing for the review.

The costs principles are codified in 2 CFR Part 200 Subpart E and are used to determine the allowability of costs applicable to Federal awards. The regulation contains general principles for determining allowable costs, both direct and indirect. The cost principles provide specific and consistent standards for determining costs of Federal awards carried out through grants, cost reimbursement contracts, and other agreements with governmental units. The cost principles determine the allowability of costs and not the extent of Federal reimbursement for a program or project. The cost principles also include guidance on State-wide cost allocation plans, indirect cost rate plans and narrative cost allocation plans. This guidance addresses the review and negotiation of cost allocation plans and indirect cost rates.

2 CFR Part 200 Subpart D-Post Federal Award Requirements Standards for Financial and Program Management requires governmental units to be responsible for the efficient and effective administration of Federal awards, but does not attempt to impose specific organization or management techniques. The reviewer should keep these basic concepts in mind when drawing conclusions about the allowability of costs assigned to federally financed activities.

Throughout this guidance, each review objective is numbered sequentially in each section to allow for easy navigation along with the corresponding elements within that objective. The appropriate references to the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) are indicated by using subpart and section (e.g., ***Ref: 2 CFR 200.415***).

## SECTION 1: DOCUMENTATION ASSESSMENT AND OVERVIEW

Indirect costs are those incurred for common or joint purposes. Indirect costs benefit more than one cost objective and cannot be readily identified with a specific project or cost activity (objective) without effort disproportionate to the results achieved. After direct costs have been determined and assigned directly to Federal awards and other activities as appropriate, indirect costs are those remaining to be allocated to benefitted cost objectives. A cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a direct cost. Indirect costs include the indirect costs originating in each department or agency of the governmental unit carrying out Federal awards and the costs of central governmental services distributed through the central service cost allocation plan. Indirect costs can be allocated to Federal awards by the use of an indirect cost rate or a narrative cost allocation methodology. A separate indirect cost rate(s) is usually necessary for each department or agency of the governmental unit claiming indirect costs under Federal awards.

All non-Federal agencies that want to claim indirect costs under Federal awards must prepare an indirect cost rate proposal or narrative cost allocation plan and related documentation to support those costs (***2 CFR 200 Appendix VII D.1a***). A governmental department or agency that receives more than $35 million in direct Federal funding must submit its indirect cost rate proposal to its cognizant agency[1] for indirect costs (***2 CFR 200 Appendix VII D.1b***). The FHWA is the cognizant agency for all State transportation agencies.

Each State will submit their central services cost allocation plan to the Department of Health and Human Services for each year in which it claims central service costs under Federal awards. Major local government may also be required to submit a plan to its cognizant agency for indirect costs annually. OMB designated the Department of Transportation as the cognizant agency for several major local governments (e.g. City of Wichita Kansas, Carson California, Dade County Florida, and Springfield Missouri). This designation may change over time or be transferred to another Federal agency based on funding levels. FHWA divisions will seldom use the section of this review guide on State and Local Public Agency Central Service since State highway agencies typically do not develop central services cost allocation plans and FHWA is not the cognizant agency for most local governments. All other local governments claiming central service costs must develop a plan in accordance with the requirements described in 2 CFR 200 Appendix V and maintain the plan and related supporting documentation for audit. These local governments are not required to submit their plans for Federal approval unless they are specifically requested to do so by the cognizant agency for indirect costs. Where a local government only receives funds as a subrecipient, the pass-through entity will be responsible for monitoring the subrecipient's cost allocation plan (***2 CFR 200 Appendix VII D.1b***).

[1] *Cognizant agency for indirect costs* means the Federal agency responsible for reviewing and approving the governmental unit's indirect cost rate(s) on the behalf of the Federal Government. The cognizant agency for indirect costs assignment is described in Appendix V, section F,Negotiation and Approval of Central Service Plans.

**Preliminary Review**
The initial step in completing a review of the central services, indirect cost, or narrative cost allocation plan is to ensure the proposal includes the required documentation. This section will identify the appropriate documents, which should be included in the proposal and whether or not information from prior negotiations or reviews is also included.

**Objective 1:** Determine whether the proposal package is complete and in sufficient detail and format to permit an adequate review. The proposal package should include the following:

**Element 1:** The proposal itself, including detailed schedules for the composition and allocation of all allocated, billed or indirect cost centers.
**Element 2:** A transmittal letter from the non-Federal entity requesting approval of the indirect cost allocation plan for the specified fiscal year and the proposed rate(s).
**Element 3:** A detailed and understandable reconciliation of the costs included in the proposal to the non-Federal entity's accounting records.
**Element 4:** An explanation of any significant increases in individual cost centers or rate components (i.e., direct costs or significant indirect cost rate component that is more than 10% higher than the level negotiated for the prior year).
**Element 5:** A computation of the actual/estimated Federal financial assistance for each applicable agency with Federal funds.
**Element 6:** Any other information specifically requested by the FHWA as a condition of prior negotiation agreements.
**Element 7:** A signed Certificate of Cost Allocation Plan or Certificate of Indirect Costs as required by the OMB Uniform Guidance (***Ref: 2 CFR 200.415***).
**Element 8:** Justification for any deviations from the standard allocation bases prescribed by the Uniform Guidance.

**Objective 2:** Review prior negotiation documentation and determine the following:

**Element 1:** Were there any significant findings or observations from previous reviews that require follow-up action.

**Element 2:** Were there any findings/recommendations contained in the most recent audit report that require follow-up action or consideration in the current review?

*Considerations:* Review the Single Audit corrective action plan and determine if agreed adjustments, if any, have been included in the proposal.

**Element 3:** Review negotiation adjustments and ensure corrections were included in the current proposal.

*Considerations:* If the corrections were not made, or conditions were not fulfilled, appropriate adjustments should be made**.**

**Element 4:** Did the negotiation agreement contain any conditions? If so, has the non-Federal entity complied with those conditions?
**Element 5:** If the proposed rate(s) is a fixed rate with carry-forward adjustment, does the carry forward amount in the current proposal agree with the prior period's calculated carry forward amount?
**Element 6:** By comparing the submission with prior negotiations, identify any aspects of the proposal that appear out of line and are not fully explained or discussed in the proposal package.

**Element 7:** Determine the areas of the proposal that appear to require an in depth review and/or an on- site review.

*Considerations:* On-site reviews are usually required for State wide cost allocation plans and indirect cost proposals from agencies that receive substantial Federal funding.

**Element 8:** Determine if the non-Federal entity is proposing any cost/rate increases beyond those based on historical costs.

*Considerations:* Proposals that include projected costs usually require a more detailed review. See separate sections of this guide for a more thorough discussion of projected cost increases.

**Element 9:** "Test check" the mathematical computations to ensure their accuracy.

*Considerations:* These verifications and the extent to which the verifications were made should be noted on the proposal, supporting documentation etc.

**Reconciliation of Proposal to the Financial Statements**

Costs included in the cost allocation plan or indirect cost rate plan must ultimately be reconciled to the non-Federal entity's official accounting records (***2 CFR 200 Appendix VII D.2***). The reconciliation process will generally require the use of detailed accounting records such as appropriation statements or similar budget and expenditure documents. These documents are the official accounting records of the non-Federal entity and are the source of the expense information contained in the summary reports. The information in these statements should provide the necessary information to determine that cost have been properly categorized as allowable or unallowable. The reconciliation should be part of the proposal and the proposal is incomplete without it.

**Objective 3:** Reconcile the proposal to the official accounting records.

*Considerations:* Total costs for each cost center should be reconciled first to the Statement of Accounts or similar document. These documents are the source of the expenditure information. A careful examination of these accounts is necessary to ensure all appropriate costs have been included in the proposal. The examination will also enable the negotiator to identify any unallowable or unallocable costs.

**Objective 4:** The reviewer examines the proposal for unallowable costs when the negotiator has verified that the costs included in the proposal agree with the statements.

*Considerations:* Refer to the Uniform Guidance for a discussion of allowable and unallowable costs. Additional costs not recorded on the books of account, such as "use allowances", must be reviewed for adequate support. Additional information regarding the reconciliation and verification of costs included in the proposal is contained in sections of this guide dealing with specific types of rate/cost allocation plans.

***(Ref: 2 CFR 200.420)***

**Trend Analysis**

The reviewer conducts a trend analysis of the costs, rates, and allocation bases during the preliminary review for all State/local-wide cost allocation plans and indirect cost rate plans. A trend analysis may provide the negotiator with insight into the areas of the proposal needing a more detailed review.

**Objective 5:** Complete a detailed trend analysis of the cost pools, allocation bases, and indirect cost rates as appropriate. The analysis should compare costs for a minimum of three (3) years if possible.

> *Considerations:* There is a variety of scenarios where a trend analysis may be useful. A review of a cost allocation plan should consider both the allocated costs and the bases[2] used to allocate the costs. This will allow FHWA to determine not only cost centers with significant increases, but also important shifts in the allocation of those costs among various benefiting agencies. With indirect cost rate proposals, it is critical to analyze changes in both the direct cost base and the indirect cost pool. The trend analysis will also identify new cost centers included in the proposal. More guidance on trend analysis as it relates to specific types of proposals is contained in later sections of this guide.

**Objective 6:** Evaluate the non-Federal entity's justification for any significant changes or additions.

> *Considerations:* If the non-Federal entity has not included the required justifications, the reviewer should request them.

**File Documentation**

The reviewer should document the results of the review and retain the information for subsequent reviews and negotiations. The file documentation should be organized and cross-referenced to assist others who may take on the responsibility of future reviews.

**Objective 7:** The negotiation workpaper files should contain sufficient documentation (e.g., file notes, schedules, interview/meeting notes, etc.) that clearly show aspects of the proposal reviewed, portions of the proposal not reviewed and why, adjustments made to the proposal, the reasons for the adjustments and supporting computations, a narrative of the rate approval and negotiations, calculations of any cost savings and that required certifications were evident.

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[2] *Base* means the accumulated direct costs (normally either total direct salaries and wages or total direct costs exclusive of any extraordinary or distorting expenditures) used to distribute indirect costs to individual Federal awards. The direct cost base selected should result in each Federal award bearing a fair share of the indirect costs in reasonable relation to the benefits received from the costs.

## SECTION 2:  INDIRECT COST RATE PLANS

Indirect costs are those incurred for a common or joint purpose. These costs benefit more than one cost objective and cannot be readily identified with a particular final cost objective without effort disproportionate to the results achieved. After direct costs have been determined and assigned directly to Federal awards and other activities as appropriate, indirect costs are those remaining to be allocated to benefitted cost objectives.  Indirect costs include costs originating in each department or agency of the governmental unit carrying out Federal awards and costs of central governmental services distributed through the central service cost allocation plan.  Where a non-Federal entity only receives funds as a subrecipient, the pass-through entity will be responsible for negotiating and/or monitoring the subrecipient's indirect costs.

All departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an Indirect Cost Allocation Plan (ICAP) or Narrative Cost Allocation Plan (NCAP) and related documentation to support those costs.

***Ref:  2 CFR 200 Appendix VII D.1a***

A governmental department or agency unit that receives more than $35 million in direct Federal funding must submit its indirect cost rate proposal to its cognizant agency for indirect costs. Other governmental departments or agencies must develop an indirect cost proposal in accordance with the requirements of the Uniform Guidance and maintain the proposal and related supporting documentation for audit. These governmental departments or agencies are not required to submit their proposals unless they are specifically requested to do so by the cognizant agency for indirect costs.

***Ref:  2 CFR 200 Appendix VII D.1b***

### Preliminary Review

Indirect cost proposals must be developed and, when required, submitted within six months after the close of the governmental unit’s fiscal year, unless an exception is approved by the cognizant agency for indirect costs (***2 CFR 200 Appendix VII D.1d***). The indirect cost proposal may include an amount for central services that is based on the latest federally approved central service cost allocation plan. A preliminary review of the ICAP should assess if the government unit is required to submit documentation for review and approval or if it qualifies to use a de minimis rate.  It is important to determine the amount of coordination with other Federal agencies and the governmental agency has submitted all relevant information.  The review will include a reconciliation of the ICAP data to financial statements and reports to determine accuracy.  It is also important to consider prior proposals, negotiation workpapers, Negotiation Agreements and other correspondence maintained in the file to ascertain previous year’s adjustments.  The reviewer should obtain a copy of the Single Audit report and determine if there are any audit findings, which may affect the scope of the ICAP review.

**Objective 1:**  Determine the need for an Indirect Cost Rate (ICR).

*Considerations:*  A rate is needed if the state agency has any awards that provide for the reimbursement of indirect costs or if it anticipates such awards in the near future.  In accordance with the Uniform Guidance, A non-Federal entity must develop an indirect cost allocation plan (ICAP) and may be required to submit the plan for cognizant agency approval before indirect costs can be claimed for reimbursement (*2 CFR 200 Appendix VII D*). As described in §200.403, Factors affecting allowability of costs, a cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

***Ref: 2 CFR 200 Appendix VII***
***Ref: 2 CFR 200.403(d)***

**Objective 2:** Determine if the non-Federal entity meets the requirements and chooses to charge a de minimis rate.

*Considerations:* Any non-Federal entity that has never received a negotiated indirect cost rate, except for those non-Federal entities described in Appendix VII to Part 200—States and Local Government and Indian Tribe Indirect Cost Proposals, paragraph D.1.b, may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely. If chosen, this methodology once elected must be used consistently for all Federal awards until a non-Federal entity chooses to negotiate for a rate, which the non-Federal entity may apply to do at any time. (***Ref: 2 CFR 200.413)***

**Element 1:** Review non-Federal entity certification for use of de minimis rate.

*Considerations:* If a non-Federal entity elects to charge a de minimis rate, they can only do so if they meet the requirements in Appendix VII to Part 200, paragraph D.1.b. They should certify that they do not receive more than $35 million in direct Federal funding (if a government agency) and that they have never received a negotiated indirect cost rate before. They should also certify they understand that they are required to charge the de minimis rate to modified total direct costs (MTDC) as defined in §200.68. This excludes equipment, capital expenditures, rental costs, etc. Also, they should certify that costs are consistently charged as either indirect or direct, but may not be double charged or inconsistently charged as both.

**Objective 3:** If a rate is required, and the non-Federal entity does not meet the requirements or chooses not to apply a de minimis rate, determine whether it is the agency's first negotiated rate with FHWA**.**

*Considerations:* The establishment of the initial rate with an agency is critical. This negotiation will set the tone for subsequent negotiations. As such, dollar involvement should not be the principal factor in determining the level of effort to be expended. It is imperative that the non-Federal entity understands Federal requirements and that the agency's accounting system and method of operation can accommodate these requirements. FHWA has developed training for non-Federal entities that are considering the development of an ICAP.

**Objective 4:** Determine whether coordination is necessary with other Federal agencies.

**Objective 5:** Determine that all of the necessary supporting data and documentation is complete.

*Considerations:* This documentation may vary depending upon the particular circumstances involved in the negotiation. The items listed here are considered to constitute the minimum documentation necessary and will normally have been requested in previous correspondence with the agency.

**Element 1:** A copy of financial data (financial statements, expenditure reports, etc.) upon which the rate is based.

*Considerations:* In many cases, State and local government agencies may submit statements audited by State or local auditors in lieu of certified statements.

**Element 2:** The approximate amount of direct base costs incurred under Federal awards. These costs should be broken out between S&W, MTDC and other direct costs.

*Considerations:* The agency should also indicate the amount of S&W, MTDC or total direct costs incurred under grants and contracts, which limit indirect cost reimbursement.

**Element 3:** A certification of the proposal by a responsible official.

*Considerations:* See the Uniform Guidance for an example of the required certification.

***Ref: 2 CFR 200 Appendix VII***

**Element 4:** An organizational chart and functional statement(s) noting the duties and/or responsibilities of all units that comprise the agency.

*Considerations:* If the agency submitted these documents with a previous proposal, only revisions to them need to be submitted with the subsequent proposal.

**Objective 6:** Determine that the proposal reconciles and cross-references to the financial data.

*Considerations:* Since the agency is primarily responsible for reconciling the proposal to the financial data, the negotiator should not spend an inordinate amount of time. The agency should submit additional information if the amounts do not reconcile or cannot be readily reconciled via telephone.

**Objective 7:** Review prior proposals, negotiation workpapers, Negotiation Agreements and other correspondence maintained in the file to ascertain previous year's adjustments.

**Objective 8:** Determine if prior negotiations concluded with any advance agreements and, if so, whether the institution complied with the agreements for the proposal currently under review.

*Considerations:* In prior negotiations, advance agreements or letters to the non-Federal entity delineating discrepancies that should be corrected in their future proposals may have been established for future negotiations to preclude disputes or problems or to help ensure equitable cost determination in the future. Examples of such agreements include those involving changes in the institution's accounting system, performance of special studies or analysis in connection with the development of future proposals, changes or refinements in allocation bases, the treatment of certain types of costs (e.g., rent, depreciation, computer costs, idle facilities costs), and limitations of certain costs.

In some cases, a prior rate may have been accepted with the condition that the institution take certain actions in the development of future proposals.

**Objective 9:** Determine the need for restricted, special, or separate rates for major organizational components of the non-Federal entity.

> *Considerations:* Separate rates for major organizational components of a department/agency are generally not required. However, they should be considered where the dollars involved are substantial and the characteristics of certain organizational components of the institution are such that there is reason to believe that they generate significantly different levels of indirect costs than other components. This is true for an agency, which includes significantly different types of operations (e.g., state Patrol, Motor Vehicle Registration and Driver License, Contracts Administration etc.)

**Objective 10:** Obtain a copy of the Single Audit report. Determine if there are any audit findings, which may affect the scope of the ICAP review.

> *Considerations:* Review the most recent Single Audit report.

**Objective 11:** Determine the appropriate level of negotiation effort.

### Review of Cost Allowability

To be allowable, costs must be reasonable, allocable to the government sponsored activities, treated in conformance with any specific limitations, conditions or exclusions prescribed in the applicable cost principles, and treated consistently (i.e., assigned to benefitting activities in a consistent manner).

***Ref: 2 CFR 200 Subpart E***

The objectives set forth in this section help ensure that the criteria for cost allowability are met.

**Objective 12:** Determine whether the expenses were incurred within the period under review.

> *Considerations:* Normally, if the expenses as shown in the proposal reconcile to the financial data it can be assumed that they were incurred within that period.

**Objective 13:** Determine through the performance of a comparative analysis with prior years whether the proposed costs are reasonable.

> *Considerations:* Use the prior years' figures maintained in the file in making a comparative analysis between years.

**Objective 14:** Determine whether the proposed costs benefit Federal awards.

> *Considerations:* Generally, an expense that is necessary to the overall operation of the non-Federal entity is allocable to Federal awards. When there is a multi-tier distribution involving more than one pool, validate that the expense benefits all activities included in the particular distribution base.

**Objective 15:** Review the financial data to determine if there are any applicable expense off-sets.

> *Considerations:* Income generated by the activities in the indirect cost pool and certain negative expenditure types of transactions should be used to off-set or reduce the expenses in the indirect cost pool (e.g., the sale of scrap, parking fees, cafeteria income, purchase discounts or rebates, etc.).

**Objective 16:** Review the proposal and financial statements to determine whether the indirect cost pool includes any of the following unallowable costs:

- Equipment and capital expenditures (§200.439)

  *Considerations:* Capital expenditures are allowable as direct costs if they are approved by the awarding agency. They are not allowable as indirect costs but instead are recovered through depreciation.

- Alcoholic beverages (§200.423)
- Bad debts (§200.426)
- Contingency provisions (§200.433)
- Contributions and donations (§200.434)
- Entertainment Costs (§200.438)
- Fines, penalties, damages and other settlements (§200.441)
- Fund raising and investment management costs (§200.442)
- General costs of government (§200.444)
- Lobbying (§200.450)

**Objective 17:** Review the following costs to determine whether they are properly treated.

*Considerations:* The costs listed here are particularly sensitive and should therefore be thoroughly reviewed when dictated by materiality.

**Element 1:** Depreciation:

**Sub-Element A:** Determine that the value of the assets for depreciation purposes was properly established.

*Considerations:* The value for depreciation purposes is acquisition cost except where the asset is donated to the non-Federal entity by a third party. For an asset donated by a third party, its fair market value at the time of the donation is the acquisition cost. Such assets are depreciated or claimed as match but not both. Where acquisition cost is used, it should reflect the actual amount recorded in the records of the non-Federal entity or, if cost records do not exist, an estimate of the acquisition cost, based on an independent and professional appraisal. Where such appraisals are used, exercise care to ensure that the amount used reflects the cost at the time of purchase and not replacement cost at the time of the appraisal. Where the depreciation method is introduced to replace the use allowance method, depreciation must be computed as if the asset had been depreciated over its entire life (i.e., from the date the asset was acquired and ready for use to the date of disposal or withdrawal from service). The total amount of use allowance and depreciation for an asset (including imputed depreciation applicable to periods prior to the conversion from the use allowance method as well as depreciation after the conversion) may not exceed the total acquisition cost of the asset.

***2 CFR 200.436***

**Sub-Element B:** Determine that cost of land and the portion of assets that are federally financed or financed with non-Federal entity matching contributions have been eliminated from the computation.

**Sub-Element C:** Determine the appropriate use of depreciation methods.

*Considerations:* In the absence of historical usage patterns or other guidance in this area, review the Uniform Guidance or IRS depreciation guidelines.

*Ref: 2 CFR 200.436*

**Sub-Element D:** If depreciation is proposed, determine that the established depreciable life of each asset is reasonable.

**Sub-Element E:** Determine the proper depreciation on idle facilities.

*Considerations:* Depreciation methods other than the straight line method should not be accepted unless the circumstances fully justify their usage (i.e., when it can be demonstrated that the assets are being consumed faster in the earlier years than in the latter years of their useful life).

**Sub-Element F:** Determine that the depreciation methods used result in an equitable allocation of costs to the periods in which the assets are used.

*Considerations:* See the Uniform Guidance for guidelines on treatment of building components.

When the depreciation method is followed, depreciation records indicating the amount of depreciation taken-each period must also be maintained.

*Ref: 2 CFR 200.436*

**Sub-Element G:** Determine that property records adequately support the charges for depreciation.

**Element 2:** Rental costs

*Considerations:* Refer to the Uniform Guidance for limitations on the amount of rental costs charged to Federal awards under various types of leasing arrangements (e.g., sale and leaseback arrangements, less-than-arms-length leases and capital leases).

*Ref: 2 CFR 200.465*

**Element 3:** Specialized facilities (e.g., computer centers)

*Considerations:* The inclusion of the costs of these types of facilities in the indirect cost pool should not be allowed when they are material in amount or when the facilities benefit a limited number of activities. Normally, costs of this nature should be charged directly to benefitting activities via a schedule of rates designed to recover their total costs.

The costs of the facility should consist of its direct costs as well its allocated share of indirect costs, including general administration, operations and maintenance, depreciation, fringe benefits, etc. The non-Federal entity should adjust the variances between the actual costs of the facilities and the direct charges to benefitting activities in a given period in accordance with the Uniform Guidance.

*Ref: 2 CFR 200.468 & 200.413*

**Element 4:** Idle (excess) facilities or capacity

*Considerations:* Idle facilities are defined as completely unused facilities that are in excess of the institution's current needs. Idle capacity is the unused capacity of partially used facilities (i.e., the difference between 100 percent capacity and actual usage of the facility).

***Ref: 2 CFR 200.446***

**Element 5:** Determine whether State or local central service costs have been included in the proposal and, if so, that they are properly supported.

*Considerations:* To be allowable, the costs must be supported by a cost allocation plan prepared by the State or locality ***(2 CFR 200 Appendix V)***. HHS is the cognizant agency for central services cost allocation plans prepared by the State. The State's cost allocation file should be reviewed to determine whether the cost allocations were approved and whether they agree with the proposed costs.

Each major local government is also required to submit a plan to its cognizant agency for indirect costs annually. All other local governments claiming central service costs must develop a plan in accordance with the requirements described in this Part and maintain the plan and related supporting documentation for audit. These local governments are not required to submit their plans for Federal approval unless they are specifically requested to do so by the cognizant agency for indirect costs. Where a local government only receives funds as a subrecipient, the pass-through entity will be responsible for monitoring the subrecipient's plan.

***Ref: 2 CFR 200 Appendix V***

**Element 6:** Review fringe benefit costs.

*Considerations:* If the fringe benefit policies of a State or local government are applied uniformly to all its agencies, the review of such policies are performed during the review of the central service cost allocation plan. In this case, the negotiator should verify that the treatment of fringe benefits in the indirect cost rate proposal is consistent with the central service cost allocation plan. If not part of central service cost allocation plan, then verify Element 7 of this objective.

**Element 7:** Determine consistent treatment of costs included in the indirect cost pool.

*Considerations:* The department or agency should be queried to determine whether any costs included in the indirect cost pool have also been charged to any Federal awards as direct costs. Where such costs are charged directly, they should be removed from the indirect cost pool.

### Review of Allocation Bases

The allocation bases are the methods by which indirect costs are allocated to benefitting activities. For multiple allocation base proposals, the agency's indirect costs benefit its major functions in varying degrees and are accumulated into separate cost groupings. Each grouping is then individually allocated to benefitted functions by means of a base which best measures the relative benefits. For simplified proposals, a single base is used to allocate all indirect costs to benefitting activities, including grants and contracts.

The base selected for each allocation should be the one which results in an equitable allocation to benefitting activities and is practical under the circumstances. The cost principles in the Uniform

Guidance include criteria for the selection of appropriate equitable bases. The Uniform Guidance also includes suggested bases (e.g., normally either total direct salaries and wages or total direct costs exclusive of any extraordinary or distorting expenditures). However, a base different from the suggested base may be used if the suggested base is either inequitable or impractical. The objectives contained in this section help ensure that the bases used result in an equitable allocation of costs. Except where otherwise noted, these objectives apply equally to both multiple allocation base and simplified proposals.

***Ref: 2 CFR 200 Appendix VII***

**Objective 18:** Determine that the proposed base or bases result in an equitable distribution of indirect costs.

> *Considerations:* Generally, the cognizant agency should accept the proposed base or bases if they conform to those suggested by the Uniform Guidance. However, there may be circumstances which indicate that an inequity will result if a suggested base is used. For example, total direct S&Ws is a suggested base. A non-Federal entity may also utilize a MTDC or total direct cost base.

**Objective 19:** Determine that the proposed base or bases include all activities, which benefit from the allocated indirect costs.

> *Considerations:* The review should focus on activities associated with general funds, activities associated with restricted, special purpose, or other funds, grants and contracts, State institutions (e.g., hospitals, universities), costs used for cost sharing or matching purposes, and non-State organizations, which receive services (e.g., an affiliated foundation, a local government agency, etc.).

**Objective 20:** Determine whether the data included in the base or bases (e.g., square footage, number of employees, time studies, etc.) are current and accurate.

> *Considerations:* This objective applies only to multiple allocation base proposals. The negotiator may be able to reconcile the data to central service cost allocation plan statistics.

### Concluding Objectives

**Objective 21:** Determine whether there are any anticipated significant changes in the level of the non-Federal entity's activities, its organization structure, or its accounting system when negotiating a provisional, fixed or predetermined rate(s).

> *Considerations:* Normally this rate(s) is based on the actual costs for the most recently completed fiscal year. However, if the agency anticipates significant changes in its operations that should affect the costs, the changes should be reflected in the establishment of the rate(s).

**Objective 22:** Determine the execution of an advance agreement covering future negotiations.

> *Considerations:* Advance agreements should be established when they are needed to preclude future disputes or problems or when they will help ensure equitable cost determinations in the future. Reasons to execute these agreements include changes or

refinements in allocation bases, the treatment of certain types of costs, changes in the State's accounting system, and limitations of certain costs.

If an advance agreement is established it should be included in the letter transmitting the Negotiation Agreement.

**Objective 23:** Negotiate the appropriate type of rate(s) (e.g., provisional, fixed, predetermined, or final) and complete negotiation agreement form.

*Considerations:* Contact will more than likely be maintained with the agency throughout the review of the proposal. The negotiator, at the conclusion of the negotiation, should contact the agency to summarize the adjustments (if any) and the term or conditions incident to the acceptance of the rate(s) and, gain concurrence on a final position.

Guidance on the circumstances under which costs should be negotiated on a provisional, final, fixed or predetermined basis are as follows:

**Provisional rates** will be used only in those situations in which the negotiator has little confidence in the rate proposed and cannot negotiate a rate which will fairly reflect an agency's operations during the period to which the rate applies. The non-Federal entity should use provisional rates when the propriety of the rates is contingent upon the occurrence of a future event, which is uncertain at the time of negotiation, or the agency plans to reorganize or otherwise substantially change its operations in the future.

**Final rates** will be calculated when a provisional rate is established. A negotiation of the final rate occurs when the actual costs for the period are known.

**Predetermined rates** may only be negotiated in those situations where there is a high probability that the rate negotiated will result in a dollar recovery to the agency not in excess of the amount that would have been recovered had the rate been established on an "after-the-fact" basis. Predetermined rates are not authorized on Federal contracts awarded to the non-Federal entity.

**Fixed rates with carry-forward** provisions may be used except where the carry-forward adjustment would be difficult or impossible to calculate because the agency is unlikely to have active awards in the future periods to affect the carry-forward adjustment against, the mix of Federal/non-Federal work performed by the agency from year to year is too erratic to permit a fair carry-forward adjustment, the operating activities of the agency are unstable, or the negotiator is not satisfied that the rate proposed will approximate the actual rate.

The negotiator should avoid setting fixed rates, which result in major carry-forward adjustments. Consider setting limitations on the amount of permissible adjustment (e.g., spread over more than one fiscal year).

**Objective 24:** Complete Summary of Negotiations

*Considerations:* A summary of negotiations should be prepared which shows the amounts negotiated that are different from the amounts submitted, and the reasons for the negotiated differences. The summary should be sufficiently detailed to permit an independent reviewer to quickly see and understand how the negotiated rates were arrived at.

## SECTION 3:  NARRATIVE COST ALLOCATION PLANS

**Preliminary Review**

The government wide cost principles under 2 CFR 200 Appendix VII authorize the use of a Narrative Cost Allocation Plan (NCAP).  The purpose of a NCAP is to streamline the reimbursement of Federal-aid funds expended to improve the stewardship and oversight of FHWA programs.  The non-Federal entity develops the NCAP, which is approved by the FHWA Division or recipient acting as a pass-through entity prior to implementation.  The NCAP describes the methodology of allocating either direct or indirect costs to the benefiting programs.  The Division office will assist the recipient in identifying the costs associated with each proposal and the appropriate methodology to allocate those costs to the benefiting programs.  In most cases, the FHWA Division office authorizes a Federal-aid project used by the recipient to claim reimbursement of costs identified under the NCAP.  It is imperative that the recipient identify the benefiting programs and obligate the appropriate amount of Federal funds related to those programs.  The documented process of billing costs should be included in the NCAP.

Divisions working with their recipient should assess which FHWA and other programs benefit from the costs incurred prior to development and approval of a NCAP.  If multiple programs benefit from the incurred costs, the authorized project agreement or agreements should identify the appropriate funding sources or programs.  The obligation of Surface Transportation Program (STP) Flexible funds is an approved option to minimize the administrative burden and oversight of the project agreement.

The process to develop, approve, execute and monitor an NCAP should include the following steps:

1. The recipient with assistance from the FHWA division determines which program or programs benefit from the indirect costs.
2. The recipient develops the NCAP in compliance with 2 CFR 200 Appendix VII and FHWA guidance.
3. The recipient should submit the NCAP to FHWA at least 6 months prior to the beginning of the recipient’s fiscal year.  The FHWA division may grant extensions.
4. The FHWA division office must approve the NCAP prior to the recipient’s fiscal year or prior to authorizing a project agreement utilizing the NCAP.
5. The FHWA division and recipient authorize a Federal-aid project in FHWA’s FMIS to obligate the applicable program funds.  Divisions ensure equitable allocation of costs to all benefitting programs (e.g., STP, NHS, CMAQ, emergency relief, etc.).  Divisions may authorize a project agreement, which only includes STP flexible funds even though other Federal programs may benefit from the indirect costs.
6. Divisions must include the NCAP within their annual risk assessment process.
7. The FHWA division should conduct periodic reviews of the NCAP and costs claimed for reimbursement.

**Objective 1:**  Determine whether the NCAP package is complete and in sufficient detail and format to permit an adequate review.  The NCAP should include the following:

> **Element 1:**  The proposal itself, including a narrative of the methodology used by the recipient to allocate costs to the benefiting Federal program or programs.

**Element 2:** A transmittal letter from the recipient requesting approval of the NCAP for the specified fiscal year.

**Element 3:** A computation of the estimated allocation of costs to the benefiting Federal program or programs.

**Element 4:** Any other information specifically requested by the FHWA.

**Element 5:** A signed Certificate of Cost Allocation Plan or Certificate of Indirect Costs as required by the Uniform Guidance.

***Ref: 2 CFR 200.415***

**Objective 2:** Ensure the allocation of costs is equitable to all benefiting program or programs.

*Considerations:* 2 CFR 200 Subpart E requires costs be allocated to Federal awards based on the benefits received. This standard is met if the costs are incurred specifically for the Federal award (direct cost), benefits multiple Federal and non-Federal programs and can be distributed or allocated in approximate proportions using reasonable methods, and is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award.

**Element 1:** The proposal adequately identifies the Federal and non-Federal program or programs, which will benefit from the indirect or direct costs.

**Element 2:** The proposal adequately identifies and estimates the indirect and sometimes direct costs, which [are?] allocated to the Federal program or programs.

**Element 3:** The proposal describes the controls in place to ensure costs billed to the Federal program or programs are appropriate.

## SECTION 4: STATE/LOCAL PUBLIC AGENCY CENTRAL SERVICE

Most governmental units provide certain services, such as motor pools, computer centers, purchasing, accounting, etc., to operating agencies on a centralized basis. Since federally supported awards are performed within the individual operating agencies, there needs to be a process through which these central service costs can be identified and assigned to benefitting activities on a reasonable and consistent basis. The central service cost allocation plan, commonly referred to as the State-wide cost allocation plan (SWCAP) and for local governments, LOCAP, provides that process. For State governments, Health Human Services (HHS) is the Federal cognizant agency. FHWA divisions will seldom use this section of the review guide since State highway agencies typically do not develop central services cost allocation plans and FHWA is not the cognizant agency for most local governments.

Each major local government is also required to submit a plan to its cognizant agency for indirect costs annually. All other local governments claiming central service costs must develop a plan in accordance with the requirements described in Appendix V to Part 200 and maintain the plan and related supporting documentation for audit. These local governments are not required to submit their plans for Federal approval unless they are specifically requested to do so by the cognizant agency for indirect costs. Where a local government only receives funds as a subrecipient, the pass-through entity will be responsible for monitoring the subrecipient's plan.

***Ref: 2 CFR 200 Appendix V (D)***

If central services costs are included in the non-Federal entity's indirect cost allocation plan, the reviewer should ensure HHS or the cognizant agency for indirect costs has approved the SWCAP. It is also important that the summary sheet for the SWCAP be included with the documentation. This section of the review guide should only be used if the FHWA Division has been asked to review or provide comments on a subrecipient's LOCAP.

**Preliminary Review**
A preliminary review of the LOCAP should assess the existence of required supporting documentation in the plan and that it meets the minimum requirements in accordance with 2 CFR 200 Appendix V. It is also important to inform all interested Federal agencies of review progress and results and consider any relevant information provided by other Federal agencies. This section includes the review of negotiation agreements, cost allocation plans, correspondence, and work papers applicable to prior years. Reviewers should conduct an evaluation of an entity's organization chart and the amount of Federal grant/contract costs incurred by each organization receiving the central services to determine the ultimate impact on grant/contract costs. Elements of this review include the completion of a trend analysis of the cost pools and allocation bases. Reviewers should obtain a copy of the Single Audit report and assess any audit findings that affect the scope of the review. The reviewer should reconcile the plan with the Sstate's financial statements or other financial documents if necessary.

**Objective 1:** Determine that all supporting documentation is included in the plan:

> **Element 1:** A certification by the State Budget Officer or other authorized State official as required by the Uniform Guidance.

*Considerations:* Where there is a review of the LOCAP, the word "State" should be read as "local" for this element and all subsequent objectives and elements.

***Ref: 2 CFR 200.415***

**Element 2:** The State's official financial statements.

*Considerations:* The documentation required to support the plan may vary depending on the circumstances involved in the negotiation. The items listed here the minimum documentation requirements necessary to permit an evaluation of the plan.

**Element 3:** An organization chart that shows the State-wide organizations rendering services, all the State departments/agencies receiving the services, and all the departments/agencies not receiving the services.

*Considerations:* Only changes to the organizational structure need to be submitted after the initial organizational chart has been submitted.

**Objective 2:** Determine whether the plan, at a minimum, contains the nature of the services provided and their relevance to Federal grants and contracts, items of expense included in the central service costs, methods used in distributing the costs, identification of both State departments/agencies rendering the services and those receiving the services, and a summary schedule showing the allocation of each service to the specific benefitted agencies.

**Objective 3:** Coordinate the negotiation with interested Federal agencies.

*Considerations:* Federal agencies interested in participating in a negotiation will notify the cognizant agency. The cognizant agency will notify all interested Federal agencies when the proposal or audit report has been received. The cognizant agency will ask all other interested Federal agencies to submit relevant information for the negotiation. Federal agencies, which do not receive a copy of the proposal or audit report, should submit a supplemental request to the cognizant agency. At the conclusion of the negotiation and documentation of the agreement, each interested Federal agency will receive a copy of the agreement.

**Objective 4:** Review negotiation agreements, cost allocation plans, correspondence, and workpapers applicable to prior years to determine:

**Element 1:** Whether the State has complied with the terms and conditions of the prior negotiation related to the development of future cost allocation plans.

*Considerations*: Cognizant agencies should consider agreements established during prior negotiations for use during current negotiations. The purpose is to preclude disputes or problems or to help ensure equitable cost determinations in the future. Examples of such agreements include those involving the performance of special studies or refinements in allocation bases, the treatment of certain types of costs, and changes in the State's accounting system.

**Element 2:** Whether the "carry forward" amount was correctly computed and included as part of the plan (if central service costs were approved on a "fixed" basis in prior years).
**Element 3:** What adjustments were made in the prior year's negotiation?

**Objective 5:** Review the organization chart and the amount of Federal grant/contract costs incurred by each organization receiving the central services to determine the services, which should be most thoroughly evaluated because of their ultimate impact on grant/contract costs.

**Objective 6:** Complete a trend analysis of the cost pools and allocation bases.

> *Considerations*: For the analysis of the allocation bases, select high Federal subvention agencies to determine if the percentage of costs allocated to these agencies has changed. The State should account for any significant increases.

**Objective 7:** Obtain a copy of the Single Audit report. Determine if there are any audit findings that affect the scope of the review.

> *Considerations:* Review the most recent Single Audit report.

**Objective 8:** Determine the appropriate level of negotiation effort and review requirements.

> *Considerations:* Final determination on these matters may not always be possible at this point. However, they should be made as early in the negotiation process as possible. If the negotiator concludes that a review is necessary, he/she should identify the specific areas, which the negotiator feels are critical to the determination of the reasonableness of the proposal along with areas that cannot be satisfactorily evaluated without an onsite review.

**Objective 9:** If a review is not to be conducted, reconcile the plan to the State's financial statements or other financial documents used to support the plan.

> *Considerations:* If the amounts do not reconcile and if they cannot be readily reconciled via telephone, they should request that the State submit additional data.

**Review of Costs**

This section includes a review of all existing central services costs (allocated and billed) to ensure they are accounted for by Sections I and II of the plan. The reviewer is required to consider any new allocated central service costs. Some of the elements within this section require the reviewer to test costs in the plan for allowability, reasonableness and allowability to Federal awards. Following this section helps to ensure the proper treatment of certain costs like depreciation. This section of the review guide will also assist the reviewer in assessing the appropriate treatment of applicable credits.

**Objective 10:** Determine whether all central services (allocated and billed) are accounted for by Sections I and II of the plan.

> *Considerations:* To ensure that duplicate charges do not occur, the plan must account for all central service costs allocated or billed to the user departments/agencies and institutions (e.g., state hospitals or universities).
>
> ***2 CFR 200 Appendix V***

### Section I Costs

Section I costs are the allocated costs of the central service cost allocation plan. Section I costs are allocated to benefiting departments and agencies on an approved reasonable basis. Section I costs are negotiated and approved for a future year on a "fixed-with-carry-forward" basis. Section I costs allocated to an operating department or agency through the central service costs allocation plan are typically included in that department's or agency's indirect cost pool.

### Section II Costs

Section II costs are the billed costs of the central service cost allocation plan. These central service costs include internal service funds, self-insurance funds and fringe benefit funds. Section II costs are billed to benefiting departments and agencies on an individual fee-for-service or similar basis. Billing rates are based on the estimated costs for providing the services. An adjustment is made at least annually for the difference between the revenue generated and the actual allowable costs. Section II costs that are billed to an operating department or agency may be either charged as direct costs to the agency's Federal awards or included in its indirect cost pool depending on the benefits received.

**Objective 11:** Determine if there are any new allocated central service costs.

*Considerations:* Review the justification for including the item as a Section I cost.

**Objective 12:** Determine whether the costs included in the plan appear to be allowable, reasonable and allocable to Federal awards.

*Considerations:* For definitions of cost allowability, reasonableness and allocability, refer to the Uniform Guidance.

***Ref: 2 CFR 200.403, 404, 405***

**Objective 13:** Determine that the applicable portion of the costs of department/agency heads and their immediate staff are excluded from the plan, if there are any unallowable functions reporting to them.

**Objective 14:** Determine whether the central services costs in the plan exclude the following unallowable costs:

- Alcoholic beverages (§200.423)
- Bad debts (§200.426)
- Contingency provisions (§200.433)
- Contributions and donations (§200.434)
- Entertainment Costs (§200.438)
- Fines, penalties, damages and other settlements (§200.441)
- Fund raising and investment management costs (§200.442)
- General costs of government (§200.444)
- Lobbying (§200.450)

**Objective 15:** Review the proper treatment of depreciation or use allowances:

**Element 1:** Determine that the value of the assets for depreciation purposes was properly established.

*Considerations:* The value for depreciation purposes is acquisition cost. This cost should reflect the actual amount recorded in the records of the state or, if cost records do not exist, an estimate of the acquisition cost, which is usually based on an independent and professional appraisal. Where such appraisals are used, exercise care to ensure that the amount used reflects the cost at the time of purchase and not replacement cost at the time of the appraisal. Where depreciation is significant in amount, the negotiator should be satisfied that the valuation bases are proper and, if the amounts are based on appraisals, that such appraisals were performed by independent and professional appraisers or by other reliable methods (e.g., insurance valuations).

**Element 2:** Determine that cost of land and the portion of assets financed with Federal funds or with the non-Federal entity's matching contributions, have been eliminated from the computation.

**Element 3:** If depreciation is proposed, evaluate the useful life of the asset and that it is reasonable.

*Considerations:* In the absence of historical usage patterns, use the IRS depreciation guidelines.

***Ref: 2 CFR 200.436***

**Element 4:** Determine that the depreciation methods used results in an equitable allocation of costs to the time periods in which the assets are used.

*Considerations:* Depreciation methods other than the straight line method should not be accepted unless the circumstances fully justify their use (i.e., when it can be demonstrated that assets are being consumed faster in the earlier years than in the latter years of their useful lives).

**Element 5:** Determine that the charges for use allowances or depreciation are adequately supported by property records.

*Considerations:* When the depreciation method is used, depreciation records indicating the amount of depreciation taken each period must be maintained.

***2 CFR 200.436***

**Objective 16: Review the proper treatment of rental costs**

*Considerations:* Refer to the Uniform Guidance, for limitations on the amount of rental costs charged to Federal awards under various types of leasing arrangements (e.g., sale and leaseback arrangements, less than arm's length leases or capital leases). Also refer to Chapter 6 10 of the Grants Administration Manual.

***Ref: 2 CFR 200.465***

**Objective 17:** Determine whether the central service costs exclude the "general cost of government."

*Considerations:* The Uniform Guidance defines the "general costs of government". These costs include the expenditures required to carry out the overall responsibilities of the State or local unit of government. The principle examples of these costs are those incurred in operating the governor's office and those incurred in operating State/local legislative bodies. This does not preclude the recovery of special, identifiable expenses incurred pursuant to the administration of Federal grants/contracts in one of these normally unallowable activities.

***Ref: 2 CFR 200.444***

**Objective 18:** Determine whether the central services included in the plan benefit Federal awards.

*Considerations:* Unless specifically unallowable, central services benefit Federal programs if they benefit the program directly or if they are necessary for the overall operations of departments/agencies performing the programs.

**Objective 19:** Determine whether appropriate considerations were given to any "applicable credits" in the determination of the expenses included in the plan.

*Considerations:* Income generated by activities conducted by the State agencies providing central services and certain negative expenditure types of transactions should be used to offset or reduce expense items (e.g., sale of scrap and publications, parking fees, cafeteria income, purchase discounts and rebates, etc.).

**Review of Cost Allocation Methods**

The central service costs are normally distributed on a number of different bases dependent upon the element of cost being distributed. This area is critical to the propriety of the plan. The negotiator, therefore, should thoroughly analyze the bases to determine whether their use results in an equitable distribution of costs to the benefitting activities.

**Objective 20:** Determine whether the bases chosen by the State are appropriate for allocating each central service.

*Considerations:* Any method of distribution that will produce an equitable distribution of the cost can be used. In selecting one method over another, consider the additional effort required to achieve a greater degree of accuracy.

**Objective 21:** Determine whether the proposed bases include all activities, which benefit from the allocated central services, including all departments/agencies benefitting from the services.

*Considerations:* Completion of this objective should include a review of activities associated with general funds, activities associated with restricted, special purpose, or other funds, grants and contracts, State institutions (e.g., hospitals, universities), costs used for cost sharing or matching purpose, and non-State organizations, which receive services (e.g., an affiliated foundation, a local government agency, etc.).

**Objective 22:** Determine whether the data included in the bases (e.g., square footage, number of employees, time studies, etc.) are current and accurate.

**Objective 23:** Determine the proper treatment of activities supported by "pass-through" funds.

*Considerations:* In some State department/agencies, the State acts mainly as a conduit of certain grant funds that "pass-through" the State to local units of government and, in some cases, to other types of organizations (e.g., universities, nonprofit institutions, etc.). In such cases, the activities supported by the funds generally do not receive central services from the State and therefore, should normally be excluded from the base(s) used to allocate the central service costs.

**Objective 24:** If the proposed base is State operating expenditures, determine if recipient payments are excluded.

*Considerations:* Inclusion of recipient payments (e.g., financial assistance, food stamps or medical vendor payments) in the base will distort the distribution of costs to benefitting departments/agencies.

**Concluding Objectives**

**Objective 25:** Determine whether there are any significant anticipated changes in the State's operations (e.g., organization structure, accounting system, etc.) that should be take into account in negotiating provisional or fixed central service costs.

*Considerations:* Normally these costs should be based on the actual costs for the State's most recently completed fiscal year. However, if the State anticipates significant changes in its operations that would affect the costs, the State would be permitted to use appropriated budget amounts, which reconcile to official documents.

**Objective 26:** Determine whether an advance agreement covering future negotiations should be established.

*Considerations:* Advance agreements should be established when they are needed to preclude future disputes or problems or when they will help ensure equitable cost determinations in the future. Examples of areas where these agreements may be needed include the performance of special studies or analyses in the development of plans, changes or refinements in allocation bases, the treatment of certain types of costs, and changes in the State's accounting system. If an advance agreement is established, it should be included in the letter transmitting the Negotiation Agreement.

**Objective 27:** Complete Summary of Negotiation

*Considerations:* A summary of negotiation should be prepared which shows the amounts negotiated that are different from the amounts submitted, and the reasons for the negotiated differences. The summary should include enough detail to permit an independent reviewer to quickly see and understand how the negotiated amounts were determined.

**Objective 28:** Maintain an electronic file of the negotiated rate agreement.

*Considerations:* The agreement should be made available to other government agencies upon request.

**Internal Service Funds**

The Internal Service Funds (ISFs) and other billed services (e.g., general fund revolving fund/accounts) might include billings for services provided (e.g., ADP, Motor Pool, etc.), payments made centrally and charged to departments based on established allocation percentages, (e.g., telephone costs based on the number of instruments, utility costs based on square footage) and supplies requisitioned at inventory cost plus a markup for administrative cost.

**Preliminary Review**

**Objective 29:** For each ISF or similar activity with an operating budget of $5 million or more, determine whether the plan contains the following:

- Brief description of each service,
- financial report balance sheet,
- revenue and expense statements with revenues broken out by source (e.g., regular billings, interest earned, etc.),
- listing of all non-operating transfers (as defined by GAAP) into and out of the fund,
- description of the procedures (methodology) used to charge the costs of each service to users, including how billing rates are determined,
- schedule of current rates,
- schedule comparing total revenues (including imputed revenues) generated by the service to the allowable costs of the service under the Uniform Guidance, with an explanation of how variances will be handled,
- schedule of billing services (by user and consist of all revenues, including unbilled, uncollected and imputed revenues).

*Considerations:* The negotiator has the option of requesting any of the above information for ISFs with operating budgets less than $5 million.

**Objective 30:** Identify all ISFs by reviewing internal accounting manuals, financial statements (certified, internal, other), budget documents, discussions with appropriate State/local personnel

*Considerations:* The Uniform Guidance requires the ISF data as described in the guide. The negotiator should be aware that requirements are also applicable to activities that function like ISFs but are not formally setup as an ISF.

The financial statements may only indicate in sub-schedules the existence of centralized service accounts but reviews of accounting manuals and discussions with appropriate State/local personnel would be required to identify all ISFs. Discussions will also highlight areas where functions are "Memo Billed."

**Objective 31:** Review all ISFs to identify those that are central service versus those of an operating department, the specific nature of the central service function, and all potential users including those with potential Federal recoveries.

*Considerations:* A Department of Corrections may run a farm, operate a laundry, build furniture, etc., for which an ISF was established. A Department of Health may charge out for laboratory services. The responsibility for review of these funds should be the cognizant Federal agency for State/local department providing the services

*Considerations:* This can be a direct charge to a Federal program, an overhead account at the operating department level or a charge to a Section I central service function which is subsequently allocated to Federal programs.

**Objective 32:** Obtain a copy of the latest audit to identify departments/agencies with Federal funds and potential problem areas. This would include Single Audit or other independent audits, OIG Audits, and State Internal Audits

*Considerations:* If there is no audit, the negotiator should be alerted to the fact that there may not be a complete tracking of sales and related accounts receivable. Potential problems may be that charges are based on revenue received rather than charges for total usage of the services provided.

**Objective 33:** For new ISFs, discuss with appropriate State/local personnel to determine when the fund was first established, how the fund was initially funded (capital transfer, etc.), existence of external and/or internal financial statements and the manner in which services are charged out, (e.g. billing rate system or recorded cost procedures).

**Review of Billing Mechanisms**
Normally under a billing rate system, a formal schedule of user rates is published and used for charging purposes; whereas under cost allocation procedures, the actual cost of the period (e.g., monthly, quarterly) are charged out to the users of the service during the respective periods on the actual allocation statistics for the period.

**Review billing rate system**

*Considerations:* Billing of Federal funds occurs after there is a utilization of an ISF. State funds may be handled in the same manner or the entire funds appropriated to operating departments may be transferred to the ISF at the beginning of the State year setting up payable/ receivable amounts in their respective accounts. Under the latter approach, the billings to State programs during the year only result in reductions to payable/receivable accounts.

**Objective 34:** Review current billing rate schedule of charges and obtain support for rates to determine if data is current and accurate. Exclude all unallowable costs.

**Objective 35:** Determine whether the rate provides for all costs (e.g., fringe benefits, LOCAP, etc.)

*Considerations:* A problem consistent with the billing method is that the billing rate may provide for replacement of assets rather than depreciation on existing equipment.

**Objective 36:** Review the schedule of billings by user to determine if all users (including those outside the non-Federal entity) are billed at the same rate for the same service. Ensure that there are no differences in billing State and non-State functions.

*Considerations:* Federal funds can participate in the purchase and use of vehicles. Separate billing rates for Federal programs should not be required from those that a State uses for its own purposes.

**Objective 37:** Determine that serviced departments are not overbilled because of another department's under billing.

**Objective 38:** Identify procedures followed by service and serviced departments where billings exceed original appropriated amounts.

**Objective 39:** Review rate base to determine whether it equitably distributes the cost of the service provided.

> *Considerations:* The review should address the need for multiple rates. In addition, outside expertise may be needed (e.g., ADP reviews).

**Objective 40:** Determine if past profit/loss is properly treated.

NOTE: Once a billing rate system is established and approved, future reviews may be necessary to ensure it is working as intended.

**Review cost allocation procedures**

> *Considerations:* The review must include the identification of nonrecurring items and instances where the State pays a lump sum amount on bills as opposed to the same billing cycles as it charges its users. If these costs are charged out based on one month's statistics it could result in charging inappropriate programs.

**Objective 41:** Review the method used to bill out the cost.

**Objective 42:** Determine the composition of cost. The data should be current and accurate, and unallowable costs excluded.

**Objective 43:** Determine if all users are charged on the same basis.

**Objective 44:** Determine that serviced departments are not overbilled because of another department's under billing.

**Objective 45:** Identify procedures followed by service and serviced departments where billings exceed original appropriated amounts.

**Objective 46:** Review charge out base (i.e., allocation statistics) to determine whether it equitably distributes the cost of the service provided.

Once a system is approved, a review of at least one billing cycle is needed to assure compliance with approved procedures.

**Self-Insurance Funds**

Self-insurance includes anything for which a State could purchase the insurance commercially, unless specifically disallowed by the Uniform Guidance. "Type of coverage and the extent of coverage and the rates and premiums would have been allowed had insurance (including reinsurance) been purchased to cover the risks". Some common self-insurance items could be for workers compensation or unemployment, property, liability, health, dental, life, and severance pay.

The Uniform Guidance lists the submission requirements for self-insurance funds. The effort required will depend on the submitted information for the self-insurance funds. The following are some objectives to follow:

**Objective 47:** Review internal accounting manuals, financial statements budget documents and correspondence with appropriate state personnel to identify all self-insurance funds.

> *Considerations:* Data on self-insurance funds should have been requested from the non-Federal entity in an attachment to the last negotiation agreement. Estimate the Federal share of the annual cost or fund balance of the self-insurance fund account. Where the Federal share is limited, we cannot expect to exert much influence on the reserve balances maintained. Our focus should be on determining whether Federal programs are paying the same per unit costs as State-funded programs and whether transfers been made from the fund.
>
> ***Ref: 2 CFR 200 Subpart F – Audit requirements***

**Objective 48:** Identify and document the kinds of risks (e.g., buildings, liability), which the organization's policy is to cover losses on a "pay as you go" basis (i.e., as losses occur or to the extent funds are available).

> *Considerations:* "Pay as you go" is not a self-insurance fund. The allowability of costs as a result of losses incurred by a non-Federal entity using such an approach is severely limited by the Uniform Guidance. Examples of costs, which can be incurred on a pay as you go basis, includes some pension plan costs, termination insurance, and post-retirement health.
>
> ***Ref: 2 CFR 200.431***

**Objective 49:** Obtain copies of applicable financial statements, including actuarial reports.

> *Considerations:* If financial statements are not available, the fund manager should have some internal statements for use.

**Objective 50:** Determine which insurance coverages, identified in objectives 3 and 4, are charged to federally funded programs.

> *Considerations:* Only those coverages ultimately charged to federally-funded programs should be considered for review.

**Objective 51:** Determine the specific coverage for items identified in objective 56, the cost of such and the mechanism used to charge Federal programs.

> *Considerations:* Depending on the coverage, Federal programs could be charged through the central service plan (Section I), billing rates to departments (Section II), "pass thru" vendor bills, fringe benefit rate, or other mechanisms. Review should include determining the reasonableness of the method(s) used to allocate the cost of insurance.

**Objective 52:** If the organization has changed from purchased insurance to self-insurance, obtain rationale for conversion and a comparison of before and after rates. If rates have increased significantly, obtain an explanation for the increases.

*Considerations:* Any actuarial analysis involved in the rate setting will be difficult to contest. If you believe there are significant overcharges or excessive reserves, contact the FHWA Resource Center early in the review process for guidance on how to resolve your concerns.

**Objective 53:** Where funded reserves are used, obtain rationale and support for the year's insurance expense.

*Considerations:* Consider the level of Federal participation to determine the extent of the review of the actuarial report. The range of review items listed in order based on Federal participation are:

| Item | Specifics |
|---|---|
| If actuarially determined, obtain copy of study | ▪ obtain a copy |
| If historical experience, obtain supporting data | ▪ does it identify the three reserve balance components identified in the Uniform Guidance?<br>▪ does it contain rate recommendations? |
| If created by law/statute, obtain copy and note any pertinent provisions. | ▪ are the rate recommendations used by the state to fund the reserve?<br>▪ do the assumptions appear reasonable?<br>▪ how has recent investment earnings (i.e., stock market) impacted the reserve balances? |

*Ref: 2 CFR 200 Appendix V (Section E, 3 c, d)*

At most, you should use the actuarial report to ask the State what it's plans are concerning increasing or reducing the fund balance in the future. FHWA recommends that you do not attempt to obtain refunds based on perceived faulty actuarial assumptions and computations.

**Objective 54:** Reconcile expense to the financial statements.

*Considerations:* You should use an accrual basis of accounting. Cash basis will not reflect true reserves because cash statements will only reflect users paying for services rather than actual costs of services provided during the accounting period to all users.

**Objective 55:** Review expense support to identify:

| Item | Specifics |
|---|---|
| Contingencies included | Catastrophic loses, etc. |
| Unallowable costs under the Uniform Guidance | Coverage of Federal Government Property |
| Unallocable costs | Coverage for false arrest, tort claims like injury due to falling lamp posts, etc. |

*Ref: 2 CFR 200.402*

**Objective 56:** Review fund statements to identify:

| Item | Specifics |
|---|---|
| Extent of contributed capital | Depending on source of contribution, this part of the reserve balance would not be a potential credit to the Federal government. |
| Accounting and treatment of interest and other investment earnings on reserves | All interest and other investment earnings should be credited to the reserve to ultimately be used for the purpose of the fund. |
| Reserve balances that represent an aggregate of several activities/billing centers | Federal participation can vary significantly among the billing centers. |
| Reserve balance amounts and support to demonstrate the reserve is not excessive | Make a determination on the need for a reserve and explanation of any level in excess of claims run off. Include claims that are submitted and adjudicated but not paid, submitted but not adjudicated, or incurred but not submitted. |
| Purpose of intergovernmental transfers such as "Amounts due the General Fund" and similar accounts/ transactions | Such accounts/transactions may include unallowable transfers of excess reserve balances or interest/ investment income from the fund. |
| Verify actual funding | |

**Objective 57:** Have the non-Federal entity identify all transfers during the year other than charges for self-insurance.

*Considerations:* Federal programs are to be credited their share if the transfer is not for self-insurance payments or return of contributed capital.

**Objective 58:** Verify all funds, programs, etc. are charged consistently.

*Considerations:* The billing of the same rate for the same service to all users. Do all State agencies/departments pay their costs in the same manner? If not, determine if the "cost per" is the same for federally funded programs as it is for non-federally funded programs. As a result, federally funded programs may be charged inflated actuarially determined rates based on state funded programs underpaying their costs in previous years. Do funds flow directly from State agencies to the insurance fund? If not, additional opportunities for transfer of funds for other uses exist.

**Objective 59:** Determine the reasonableness of the allocation or charging basis depending on the specific insurance coverage.

*Considerations:* Overall, average rates of certain components may not be appropriate (e.g., Workers' compensation expenses may vary significantly from department to department based on employee classifications).

**Objective 60:** Using the "Pay as You Go" method:

**Element 1:** For liability and property insurance, ensure compliance with the Uniform Guidance.
**Element 2:** For fringe benefit type insurance (e.g., pension plans, post-retirement health), determine whether the amounts proposed represent employee benefits in the form of employers' contribution or expense, for the year and such amounts are properly determined and allocated.

*Considerations:* The entity may use trust or agency funds to account for these items. You should determine the basis of the non-Federal entity's expense (i.e. the amount paid to the fund or the actual payment from the fund).

***Ref: 2 CFR 200.431***

**Element 3:** Determine reasonableness of the allocation bases.

*Considerations:* Allocations are based on benefits received.

**Objective 61:** Where the cost of administering these programs is charged as either part of the billing rates or allocated as a Section I activity, you must ensure that only costs applicable to the State activity are included for allocation.

*Considerations:* Many States administer fringe benefit programs such as health, dental, pension, etc. for both themselves and other governmental entities such as local governments. The methodology for charging administrative costs of the program must result in federally funded programs not paying more than their share of these administrative costs. The State should use some combination of (1) charging the non-state entities their relative share of the administrative costs and (2) paying for them with only State funds.

**Fringe Benefits**
The following guidance on the review of fringe benefits is primarily based on the general requirements of the Uniform Guidance, as well as specific requirements contained in 2 CFR 200.431. In addition, the negotiator should be aware of publications of both the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB) that provide information and guidance on accounting for the cost of various fringe benefits. A listing of applicable publications is contained in the guide at the end of this section.

**Objective 62:** The non-Federal entity should submit the following information as part of its proposal:

*Considerations:* After the initial review, it is only necessary that the non-Federal entity submit changes.

**Element 1:** Listing of each fringe benefit (FB) and the annual cost of each.

*Considerations:* If the non-Federal entity uses a "specific identification" method to account for FBs, annual costs may not be readily available.

**Element 2:** Current FB policies for each FB listed including coverage and funding.

**Element 3:** Method used for budgeting and charging FBs to Federal awards.

**Element 4:** Future changes in FB policies or charging/budgeting methods.

**Element 5:** FB proposal.

*Considerations:* Multiple rates may be necessary if there are different classes of employees or pension systems.

**Element 6:** Reconciliation of financial statements or other official expenditure reports for each component of the FB proposal.

**Element 7:** Copies of audit reports from the State, or Certified Public Accountant (CPA) firm of any FB component.

*Considerations:* Including annual reports prepared by/for Retirement Systems, Insurance Commissions, etc.

**Element 8:** Copies of the most recent actuarial reports.

*Considerations:* An actuarial valuation should be performed at least every two years.

**Element 9:** Copies or reference to any applicable State laws or regulations pertaining to the non-Federal entities FBs.

**Objective 63:** Review the financial statements and especially any notes relative to FB costs.

*Considerations:* The financial statements are an important source of background information on FBs and any changes with respect to their provisions. Information on the status of reserves and transfers of funds will also be found in the financials.

**Objective 64:** Hold discussions with appropriate non-Federal entity representatives to obtain a complete understanding of the methods used to both charge and budget FBs, including budgeting, accounting and recovery of all FB cost claimed for Federal reimbursement.

*Considerations:* The non-Federal entity can use several methods to account for the various FB costs. The scope of review will vary depending on the method followed. Examples include the following:

- FBs appropriated centrally where an average rate is developed, similar to an indirect cost rate, and charged to Federal awards. Use of an internal billing system for Federal funds and other third parties and there is no billing for non-Federal entity funded programs.
- FBs appropriated at the department level resulting in internal billings for all funds. Billing rates may be based on:
    - Average rates developed for individual FB components under the same process described for central appropriations above.
    - Specific FBs identified with each department and departmental rates developed and billed accordingly.
    - Individual rates needed because department experience varies, e.g., workers compensation, unemployment, etc.
    - Specific FBs identified with individual employees and charged directly to the programs the employees are working on.

- In any case, the negotiator must ensure that Federal programs have been charged in a manner consistent with other sources of funds, particularly State general funded activities.

  *Considerations:* Perform all of the following objectives where the non-Federal entity uses the average rate method (e.g., whether it is a non-Federal entity wide FB rate under a central appropriation process or a rate charged under the departmental approach). For FBs assigned to individual employees, perform only those objectives where FBs are applicable to individual employees. The negotiator must also identify the method used to assign the specific FB costs.

**Objective 65:** Review of the Salary and Wages (S&W) base should include:

**Element 1:** Reconciliation to the financial statements.
**Element 2:** Complete description of the base (i.e., is it total S&W as recorded in the accounting system or are certain components excluded, e.g., over time, part time employees, etc.?)

*Considerations:* The review must determine whether it is equitable to include S&W of part time employees in the base. Some FBs, such as pension, may not apply to these employees. In such cases, a separate FB rate may be appropriate.

**Element 3:** Determine if all departments, divisions, agencies, etc., of the non-Federal entity are considered. Review actuarial reports.
**Element 4:** Determine if a multiple rate structure for different classes of personnel is needed.

*Considerations:* Where there are several classes of personnel (e.g., police, fire, corrections, teachers, etc.), a multiple rate system may be needed or certain areas should be excluded because they skew the rate and have little relevance to Federal programs. Usually uniformed personnel as well as judicial and legislative members may be excluded because they have high FB costs and little or no Federal reimbursement. The significance of this differential is usually, but not always, highlighted in the actuarial valuation of pension costs.

**Element 5:** Determine the method followed by the non-Federal entity to account for vacation, holiday, sick or other leave (i.e., accrued when earned or pay as you go).

*Considerations:* See the Uniform Guidance for guidance on allowable costs. Pay particular attention to accrual methods of accounting to ensure appropriate credit when leave is used.

***Ref: 2 CFR 200 Subpart E – Cost Principles***

**Objective 66:** Review of pension costs should include the following:

**Element 1:** Identify all pension costs by plan and basis of the recorded expense (i.e. actuarially based or pay as you go).

*Considerations:* In some cases, the State is responsible for funding the employer's share of pension costs for teachers and other local government employees. In such cases, the negotiator must include those costs in the assessment of allowable pension expenses.

**Element 2:** Determine which classes of personnel should be included in the pension rate for Federal purposes.

*Considerations:* Usually police, judiciary and the like should be eliminated or separate rates should be developed.

**Element 3:** Verify that the pension expenditures recorded in the financial statements and the FB proposal are funded.

*Considerations:* The Uniform Guidance provides guidance on the timing of actual contributions to a pension system. In general, the costs must be funded within six months after the end of the fiscal year to be included in that year's expenses.

***Ref: 2 CFR 200.431(g)***

**Element 4:** Explain differences between expenses determined under GAAP and actual funding.

*Considerations:* Overfunding may occur in a year because funds are available. Such excess is not acceptable as a current period expense but is a prepaid expense applied to a future period. Underfunding will increase future costs due to interest lost and an increase in the unfunded liability of the pension plan.

***Ref: 2 CFR 200.431(g)***

**Element 5:** For plans based on actuarial methods of funding, obtain an analysis of the composition of the year's expenses.

*Considerations:* This could include normal costs, amortization of prior service costs, life insurance, etc. The costs included could vary depending on the actuarial method used. The negotiator should determine assumptions made by the actuary regarding timing of contributions for valuation purposes. Consideration of the effect on Federal reimbursement is important. Further information on the requirements of accounting for and reporting pension plan expenditures is also available in GASB Statement No. 25.

**Element 6:** Verify funding of the pension expenditures recorded in the financial statements and the FB proposal.

*Considerations:* The Uniform Guidance provides guidance on the timing of actual contributions to a pension system. In general, the costs are funded within six months after the end of the fiscal year to be included in that year's expenses.

***Ref: 2 CFR 200.431(g)(4)***

**Element 7:** Determine if interest amounts included are allowable.

*Considerations:* Pension expenses may include an element of interest expense arising from several sources.

- Allowable:

    - Unfunded liability from the establishment of the plan or changes to the plan (past/prior service costs).
    - Unfunded liability created by a prior failure to adequately fund the plan in accordance with actuarial determination because of the lack of funds or other considerations.
    - Unfunded liability caused by the use of outdated actuarial assumptions.
- <u>Unallowable:</u>
    - Late payments to the pension fund.
    - Delay in contribution caused by a state mandate.

**Element 8:** The non-Federal entity, where possible, should identify the various unfunded liabilities and their amortization periods. Each should be reviewed for allocability to Federal programs.

*Considerations:* Review may highlight areas where the allocability to Federal programs is questionable.

**Element 9:** Review the pension plan's financial statements to determine if the fund is maintaining a contingency reserve, which has not been included in the actuarial computations.

*Considerations:* Failure to consider all funds held by the pension system could understate assets and result in excess contributions.

**Element 10:** Non-Federal entity followed Federal regulations when using pension obligation bonds to liquidate some or all of the unfunded liability.

*Considerations:* Verify if the actuary or single audit report documented any issues from a prior period.

**Element 11:** Federal programs received the appropriate allocation of early retirement programs.

**Element 12:** Review actuarial assumptions and computations to determine if any areas require further consideration.

**Element 13:** Review the pension plan, trust agreement, etc., to determine if it is possible for the non-Federal entity to access the pension funds for reasons other than the payment of pensions. Ascertain if any withdrawals or diversion of assets have taken place.

*Considerations:* If the non-Federal entity withdraws funds from the pension system for general fund purposes, such a transfer would require an appropriate credit to the Federal government. This issue is most likely to present itself during times of economic downturn and can be an attractive alternative to raising taxes. Review the financial statements or annual report to identify these transfers or withdrawals.

**Element 14:** Review the funding status of the plan to determine if there is apparent overfunding. The State should explain the overfunding and liquidating the amount.

*Considerations:* Because the funding status of the plan must be viewed in the "long run", it is not easy to sustain a finding of overfunding. However, suspected overfunding should be discussed with both the State and its actuary to obtain a thorough understanding of the status of the plan.

**Element 15:** Determine how administrative costs are handled when the State administers the pension plan (i.e., part of the pension rate, separately recovered as a Section I cost, or other).

*Considerations:* Ensure amounts are not duplicated. In addition, costs associated with administering portions of the pension plan not related to State employees (local government employees, teachers) should be identified and not included in any allocation at the State level.

**Element 16:** Compare the method used to compute the State contribution to the pension plan to the method used to compute charges to Federal programs.

*Considerations:* The negotiator should be satisfied that the State contribution is the same percentage of salaries and wages (S&W) as is used to claim Federal reimbursement. Where the State amount is based on estimated S&W, it may be necessary to make an adjustment to reflect actual S&W cost at year-end to equalize the contribution, if the State uses a specific identification method to charge pension expense.

**Objective 67:** Review of Other Fringe Benefits

**Element 1:** Determine if amounts and benefits are allowable and reasonable.

**Element 2:** Verify that coverage is the same for all employees

**Element 3:** Obtain an analysis of the portion of cost paid for current/retired employees (e.g., health insurance).

*Considerations:* The employer share of post-retirement health insurance may be funded on a pay as you go basis or actuarially determined, similar to pension costs. In some cases, the pension system may pay the post-retirement health insurance and be treated as an element of the pension rate. Consistent treatment of this, and all costs, is extremely important.

**Element 4:** Determine the reasonableness of including the cost of retiree's benefits in the FB pool.

*Considerations:* Adjustments may be necessary because some employees, like police, may have shorter service requirements to qualify for a pension. Such employees would therefore make up a larger proportion of retirees. An adjustment would be necessary to compensate for the employees where the health costs are higher and there is little or no Federal involvement. Assure that amounts paid by retirees through direct contribution or reduction of pension benefits are properly credited against total cost of the benefit.

**Element 5:** Consider any rebates or other applicable credits in arriving at the allowable costs (e.g., rebates of unemployment compensation insurance, life insurance dividends/rebates, etc.).

**Element 6:** Determine if any FB is handled through Trust or Agency Funds. If so, obtain appropriate financial statements/annual reports for review.

*Considerations:* This could highlight transfers to the general fund, interest earned on funds awaiting disbursement, or other areas requiring further review. Note that interest can be earned on the employer contribution portion as well as the employee withholdings for Social Security, Federal taxes withheld, etc. Interest earned on both employee and employer contributions may be a proper credit against Federal programs.

**Element 7:** Determine if coverage is consistent among all employee groups and, the non-Federal entity treats the cost of benefits consistently for both federally and non-federally funded personnel.

*Considerations:* Consider adjustments to the FB rate if the benefits for any group are higher than any other group. This is especially true for Workers' Compensation or Unemployment Insurance where expense could vary significantly between departments or other employee groups.

**Element 8:** In some cases, the non-Federal entity may elect to be self-insured for certain FBs (e.g., workers' compensation and unemployment). The allocation of cost for being self-insured must be in accordance with the Uniform Guidance.

*Considerations:* The Uniform Guidance requires such cost to be "allocated as a general administrative expense to all activities of the governmental unit." It is not appropriate to allocate these cost directly to the program to which the employee receiving the benefit had been assigned.

***Ref: 2 CFR 200.447***

**Element 9:** For FBs that are self-insured, see the Self Insured section of this document for those objectives.

**Reference Material**
The following is a list of publications and other guidance, in addition to the Uniform Guidance, which can be helpful to the negotiator during the review of fringe benefits:

- Governmental Accounting Standards Board (GASB) Statement No. 16 "Accounting for Compensated Absences" 11 /92
- GASB Statement No. 25 "Financial Reporting for Defined Benefit Pension Plans and Note Disclosure for Define Contribution Plans" 11 /94
- GASB Statement No. 26 "Financial Reporting for Post-employment Healthcare Plans Administered by Defined Benefit Pension Plans" 11 /94
- GASB Statement No. 27 "Accounting for Pensions by State and Local Government Employees" 11 /94
- FASB Statement No. 43 "Accounting for Compensated Absences" 11 /80
- FASB Statement No. 74 "Accounting for Special Termination Benefits paid to Employees" 8/83
- FASB Statement No. 87 "Employers' Accounting for Pensions" 12/85
- FASB Statement No. 106 "Employers' Accounting for Postretirement Benefits Other Than Healthcare" 12/90
- FASB Statement No. 112 "Employers' Accounting for Postemployment Benefits" 11 /92
- FASB Statement No. 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits" 12/03